

There are disadvantages to deferring income. Unless the amount deferred is protected against inflation, it may have significantly reduced value when received than when earned. If the deferred income is invested in stock, it may have reduced or no value when received. These are two of the main reasons that 401(k) plans that are offered to the majority of employees are voluntary and are presented as needs-investment decisions.

Companies generally have a more restrictive deferral plan for senior executives, since the plans at this level are a way to attract and retain executive talent. Such plans will often mandate that a certain portion of the executives' income be deferred and that the deferral be in some form of stock, either phantom or real. Attached to this item are cursory company reports on the top twenty holdings in the CalSTRS equity portfolio. We have not surveyed any portfolio companies on the status of their deferred compensation plans, to date. The information is not readily available and any research effort will be intense.

### **Discussion**

The Controller's letter concentrated on the deferred compensation plan aspect of the Enron failure. The Federal Government establishes the rules that guide 401(k) plans. Companies are allowed some flexibility in the issue of matching contributions with company stock and the holding period requirement. There are significant pros and cons surrounding employee ownership of the stock. The restriction on holding period on holding company stock in the Company's 401(k) and plans is currently being addressed at the Federal level. New legislation promulgating new rules is highly likely.

There are also substantial questions/concerns regarding the accounting practices and the lack of oversight exercised by both Enron's Audit Committee and Arthur Anderson, Enron's auditor. The independence of Audit Committees and outside auditing firms has been a corporate governance issue for several years. CalSTRS may wish to press the Securities and Exchange Commission (SEC) to address auditor independence standards. Arthur Anderson was paid over \$25 million for consulting services in 2000; the appearance of conflict of interest or at least compromised independence seems evident. As a large institutional investor, CalSTRS may wish to encourage Congress and the SEC to strengthen the SEC's enforcement capability.

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### **• *WORK PLAN DISCUSSION***

The primary objective of the Corporate Governance Program is to fulfill the requirements of the Teachers' Retirement Law regarding this plan asset. The Teachers' Retirement Law states that CalSTRS is to "monitor each corporation any of whose shares are owned by the plan and to advise the board on the voting of the shares owned by the plan and on the responses of the system to merger proposals and tender offers and all other matters pertaining to corporate governance." This requirement was added to the law in 1984. The strategy is to monitor, analyze and execute votes on all of the companies in the CalSTRS equity portfolio.

### **Key Issues**

- Review and, if needed, recommend changes to the policy documents that govern the Corporate Governance Program: The Statement of Investment Responsibility and the Financial Responsibility Criteria for Corporate Investments.
- Present the Teachers' Retirement Board with a "true and accurate record of how proxies have been voted or otherwise managed."
- Review the CalSTRS equity portfolio for under-performing companies to assess the need for pro-active involvement (Focus Companies).
- Monitor class actions that may affect CalSTRS portfolio companies.
- Monitor the Corporate Governance Pipeline Report.
- Analyze legislative efforts that may affect CalSTRS portfolio companies.
- Review marketplace for issues that may help or impede CalSTRS' ability to fulfill its fiduciary duty in this area.

Staff reviewed the entire CalSTRS portfolio in its performance review. Thirty companies were identified as poorly performing according to comparisons over 1, 3, and 5 year periods. Attachment 3 is a summary of the companies, with market values, annualized returns, and broad ownership percentages. Brief descriptions of each of the thirty companies are presented in Attachment 4.

We then screened the 30 poorly performing companies for Corporate Governance provisions and performance comparisons relative to their respective peer group. The results of this second level of analysis will be presented to the Subcommittee in Closed Session.

As in previous years, the following criteria was used in analyzing the companies:

- **CalSTRS' ownership should be meaningful, somewhere between .25% and .50% of outstanding shares;**
- **Institutional ownership should be meaningful, at 50% or better;**
- **Insider ownership or significant holder should not be above 10%;**
- **Market value should be \$2 million or greater;**
- **Total shareholder returns demonstrating under-performance for one, three and five year periods compared to market and peer groups.**

## **MAJOR CORPORATE GOVERNANCE INITIATIVES**

### **State Controller's letter of January 15, 2002:**

- 1) Employees will not be required to invest in a company's defined contribution retirement savings plan.
- 2) Employees have the option to select the company's matching contribution in some form other than company stock
- 3) Limit company stock holdings in employee's 401(k) to no more than 10%.
- 4) Within the bounds of SEC legislation employees in a defined contribution program will always have the ability to liquidate company stock.

### **Corporate Governance Initiatives:**

- 5) Independent Audit Committee authority over the outside auditor.
- 6) Audit committee member competence standards.
- 7) Auditor independence (eliminate or reduce non-audit services to client).
- 8) Mandatory rotation of external Auditor firm.
- 9) Cooling off period before a company can hire an audit firm employee that worked on its audit.
- 10) Redundant independent audits.
- 11) Reform the accounting standards (FASB).
- 12) Improve accounting industry oversight.
- 13) Increased disclosure standards of Auditor services / revenues.
- 14) Enhance Director independence.
- 15) Federal legislation to protect retirement security in deferred compensation programs.
- 16) Reduce or eliminate corporate restrictions on employee liquidation of company stock.
- 17) Develop general guidelines for a Governance system.

### **Additional initiatives raised by the State Controller in a letter to CalPERS:**

- 18) Audit Committee members must hold a Series 7 security license and pass an annual update administered by the SEC.
- 19) Auditors cannot provide any non-audit services to audit clients.
- 20) Audit committees must meet quarterly and review all Internal audits. At least one meeting should preclude any company executives from attending.
- 21) Audit Committee members must have full access to company documents.
- 22) Audit Committee members must provide full and complete disclosure of financial ties to the Board and Company.

- 23) Limit external Auditor terms to 3 – 5 years.
- 24) Demand broader public disclosure of a company's entrance into forward equity contracts.
- 25) Increase mandatory liability coverage for audit firms.
- 26) Hold off record keeper transitions and the accompanying blackout period if company stock has declined a larger percentage in the trailing 60 days.

**Additional concepts proposed by the State Treasurer:**

- 27) Reforms to the Private Securities Litigation Reform Act of 1995 (PSLRA).
- 28) Increased disclosure of Executive Compensation including clear disclosure of stock options and their value.
- 29) Establish minimum corporate governance standards.
- 30) Work with proxy services to create a "Report Card for Corporate governance" that is easily understood in the marketplace.
- 31) Support enhanced State regulations of corporate auditing.
- 32) Convene a joint meeting with CalPERS on needed reforms.

The Subcommittee Chair requested that staff include this copy of the CalPERS agenda item regarding Enron that was presented at their February 21, 2002 meeting and other materials distributed at the meeting.



**KATHLEEN CONNELL**  
*Controller of the State of California*

January 15, 2002

Mr. Chris Waddell  
General Counsel  
CalSTRS  
PO Box 15275  
Sacramento, CA 95851-0275

Dear Chris:

In the wake of the recent Enron situation, it has become glaringly apparent that protections need to be instituted to mitigate the risk of employees losing their life's savings when a company's executives make improper management decisions. On more than one occasion, employees have lost their jobs when a company encounters a challenging business environment only to have that loss compounded by a drastic reduction in their retirement savings because they were heavily invested in their company's stock.

As a recognized leader in active corporate governance, CalSTRS has an opportunity to take a leadership role in ensuring the protection of employees' retirement savings. I recommend the following reforms to CalSTRS' Corporate Governance Policy. These reforms would require CalSTRS to ensure that publicly traded companies in which CalSTRS holds a significant equity stake would adhere to higher standards of protection for employees' defined contribution plans.

Specific reforms would include the following:

- 1) Employees will not be **REQUIRED** to invest in the company's defined contribution retirement savings program;
- 2) For those employees who choose to invest in a company's defined contribution retirement savings program in which the company matches a percentage of employee contributions, the employees will have the option to receive the company's matching contribution in some form **OTHER THAN** company stock;
- 3) For those employees who choose to invest in a company's defined contribution retirement savings program, no more than 10% of the employee's savings may be invested in the company's stock;

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- 4) Within the bounds of SEC legislation, employees who choose to invest in company stock through a defined contribution program will ALWAYS have the ability to liquidate that stock.

I am asking that your staff conduct a survey of CalSTRS' top twenty publicly traded stock holdings and report which companies, if any, currently adhere to the policies I've recommended above.

I thank you in advance for your efforts. I look forward to seeing these materials scheduled as an agenda item at the February Investment Committee meeting.

Sincerely,

A handwritten signature in cursive script, reading "Kathleen Connell".

KATHLEEN CONNELL  
State Controller

## CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	American Intl. Group <AIG>	<b>PRICE (2/13/02):</b>	\$77.08
<b>INDUSTRY:</b>	Insurance (Multi-Line)	<b>52-WK PRICE RANGE:</b>	\$66.00-89.62
<b>SHS HELD BY STRS (12/31/01):</b>	8,315,599	<b>% OF S/O:</b>	0.32%
<b>MKT VALUE (12/31/01):</b>	\$660,258,560.60	<b>STRS' POSITION RANK:</b>	#8
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 1.969%

# of Holders: 2,756  
Shares Held: 1.63 Billion  
% of Shares Out.: 62.41%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	1-Year	3-Year	5-Year
AIG	-19.19%	15.70%	25.61%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Outlook	Stable
2) Issuer Rating	Aaa
3) Senior Unsecured Debt	Aaa
4) Preferred Stock	WR

#### Standard & Poor's

1) Outlook	Stable
2) LT Local Issuer Credit	AAA
3) ST Foreign Issuer Credit	A-1+
4) ST Local Issuer Credit	A-1+

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	153,084	\$12,154,869.60	0.01
TC0B	BGI ENHANCED	166,143	\$13,191,754.20	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	158,842	\$12,612,054.80	0.01
TC0E	MELLON CAPITAL MANAGEMENT	125,242	\$9,944,214.80	0
TC0F	FIRST QUADRANT	92,000	\$7,304,800.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	110,155	\$8,746,307.00	0
TC0H	PUTNAM INVESTMENTS	77,800	\$6,177,320.00	0
TC0J	BRINSON PARTNERS	294,414	\$23,376,471.60	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	3,368,001	\$267,419,279.40	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	141,679	\$11,249,312.60	0.01
TC17	STRS-S P 500 INDEX	3,375,939	\$268,049,556.60	0.13
TC20	NCM CAPITAL MNGT GROUP INC	143,700	\$11,409,780.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	108,600	\$8,622,840.00	0
		8,315,599	\$660,258,560.60	0.32



# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	AOL Time Warner <AOL>	<b>PRICE (2/13/02):</b>	\$27.18
<b>INDUSTRY:</b>	Entertainment	<b>52-WK PRICE RANGE:</b>	\$27.40-58.51
<b>SHS HELD BY STRS (12/31/01):</b>	13,700,124	<b>% OF S/O:</b>	0.35%
<b>MKT VALUE (12/31/01):</b>	\$439,773,980.40	<b>STRS' POSITION RANK:</b>	#11
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 1.272%

# of Holders	2,638
Shares Held	2.66 Billion
% of Shares Out.	62.56%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	1-Year	3-Year	5-Year
AOL	-7.72%	-6.10%	72.84%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Outlook	Stable
2) Senior Unsecured Debt	Baa1
3) Subordinated Debt	Baa2
4) Preferred Stock	Baa3
5) Short Term	P-2

#### Standard & Poor's

1) Outlook	Stable
2) LT Foreign Issuer Credit	BBB+
3) LT Local Issuer Credit	BBB+
4) ST Foreign Issuer Credit	A-2
5) ST Local Issuer Credit	A-2

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	272,609	\$8,750,748.90	0.01
TC0B	BGI ENHANCED	300,959	\$9,660,783.90	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	287,959	\$9,243,483.90	0.01
TC0E	MELLON CAPITAL MANAGEMENT	251,050	\$8,058,705.00	0.01
TC0F	FIRST QUADRANT	244,000	\$7,832,400.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	213,150	\$6,842,115.00	0.01
TC0H	PUTNAM INVESTMENTS	218,400	\$7,010,640.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	5,706,805	\$183,188,440.50	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	240,164	\$7,709,264.40	0.01
TC17	STRS-S P 500 INDEX	5,720,228	\$183,619,318.80	0.13
TC20	NCM CAPITAL MNGT GROUP INC	244,800	\$7,858,080.00	0.01
<b>TOTAL:</b>		13,700,124	\$439,773,980.40	0.35

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Bank of America <BAC>	<b>PRICE (2/13/02):</b>	\$62.12
<b>INDUSTRY:</b>	Banks (Money Center)	<b>52-WK PRICE RANGE:</b>	\$45.65-65.54
<b>SHS HELD BY STRS (12/31/01):</b>	5,049,232	<b>% OF S/O:</b>	0.34%
<b>MKT VALUE (12/31/01):</b>	\$317,849,154.40	<b>STRS' POSITION RANK:</b>	#19
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 0.925%

# of Holders: 1,855  
 Shares Held: 933.74 Million  
 % of Shares Out.: 59.35%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
BAC	42.46%	5.38%	8.58%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Stable
2) Issuer Rating	Aa2
3) Senior Unsecured Debt	Aa2
4) Subordinated Debt	Aa3
5) JR Subordinated Debt	Aa3
6) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	A+
3) LT Local Issuer Credit	A+
4) ST Foreign Issuer Credit	A-1
5) ST Local Issuer Credit	A-1

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	116,184	\$7,313,782.80	0.01
TC0B	BGI ENHANCED	129,790	\$8,170,280.50	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	105,189	\$6,621,647.55	0.01
TC0E	MELLON CAPITAL MANAGEMENT	126,507	\$7,963,615.65	0.01
TC0F	FIRST QUADRANT	164,000	\$10,323,800.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	118,600	\$7,465,870.00	0.01
TC0I	DELAWARE INVESTMENT ADVISORS	142,300	\$8,957,785.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	2,028,317	\$127,682,555.15	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	85,323	\$5,371,082.85	0.01
TC17	STRS-S P 500 INDEX	2,033,022	\$127,978,734.90	0.13
<b>TOTAL:</b>		5,049,232	\$317,849,154.40	0.34

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Citigroup Inc. <C>	<b>PRICE (2/13/02):</b>	\$45.35
<b>INDUSTRY:</b>	Financial (Diversified)	<b>52-WK PRICE RANGE:</b>	\$34.51-56.99
<b>SHS HELD BY STRS (12/31/01):</b>	16,465,612	<b>% OF S/O:</b>	0.33%
<b>MKT VALUE (12/31/01):</b>	\$831,184,093.76	<b>STRS' POSITION RANK:</b>	#3
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 2.447%

# of Holders: 3,188  
 Shares Held: 3.34 Billion  
 % of Shares Out.: 64.95%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	1-Year	3-Year	5-Year
C	0.09%	28.12%	28.64%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Stable
2) Senior Unsecured Debt	Aa1
3) Subordinated Debt	Aa2
4) JR Subordinated Debt	WR
5) Preferred Stock	Aa3
6) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	AA-
3) LT Local Issuer Credit	AA-
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	316,689	\$15,986,460.72	0.01
TC0B	BGI ENHANCED	333,451	\$16,832,606.48	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	326,777	\$16,495,702.96	0.01
TC0E	MELLON CAPITAL MANAGEMENT	313,622	\$15,831,638.56	0.01
TC0F	FIRST QUADRANT	320,000	\$16,153,600.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	212,400	\$10,721,952.00	0
TC0H	PUTNAM INVESTMENTS	92,000	\$4,644,160.00	0
TC0J	BRINSON PARTNERS	633,242	\$31,966,056.16	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	6,632,681	\$334,817,736.88	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	279,091	\$14,088,513.68	0.01
TC17	STRS-S P 500 INDEX	6,648,259	\$335,604,114.32	0.13
TC20	NCM CAPITAL MNGT GROUP INC	175,000	\$8,834,000.00	0
TC28	BROWN CAPITAL MANAGEMENT INC.	182,400	\$9,207,552.00	0
<b>TOTAL:</b>		16,465,612	\$831,184,093.76	0.33

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Cisco Systems <CSCO>	<b>PRICE (2/13/02):</b>	\$17.52
<b>INDUSTRY:</b>	Computers (Networking)	<b>52-WK PRICE RANGE:</b>	\$11.04-44.00
<b>SHS HELD BY STRS (12/31/01):</b>	23,522,557	<b>% OF S/O:</b>	0.33%
<b>MKT VALUE (12/31/01):</b>	\$425,993,507.27	<b>STRS' POSITION RANK:</b>	#12
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 1.381%

# of Holders: 3,093  
 Shares Held: 4.03 Billion  
 % of Shares Out.: 54.93%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	1-Year	3-Year	5-Year
CSCO	-52.46%	-7.92%	20.69%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

No ratings for this issuer

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Base Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	455,223	\$8,244,088.53	0.01
TC0B	BGI ENHANCED	374,257	\$6,777,794.27	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	467,723	\$8,470,463.53	0.01
TC0E	MELLON CAPITAL MANAGEMENT	470,600	\$8,522,566.00	0.01
TC0F	FIRST QUADRANT	105,000	\$1,901,550.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	391,200	\$7,084,632.00	0.01
TC0H	PUTNAM INVESTMENTS	437,200	\$7,917,692.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	9,456,149	\$171,250,858.39	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	397,896	\$7,205,896.56	0.01
TC17	STRS-S P 500 INDEX	9,478,309	\$171,652,175.99	0.13
TC20	NCM CAPITAL MNGT GROUP INC	737,600	\$13,357,936.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	751,400	\$13,607,854.00	0.01
	<b>TOTAL:</b>	23,522,557	\$425,993,507.27	0.35

**CALIFORNIA STATE TEACHERS' RETIRMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Coca-Cola <KO>	<b>PRICE (2/13/02):</b>	\$46.38
<b>INDUSTRY:</b>	Beverages (Non-Alcoholic)	<b>52-WK PRICE RANGE:</b>	\$42.37-60.99
<b>SHS HELD BY STRS (12/31/01):</b>	7,250,453	<b>% OF S/O:</b>	0.31%
<b>MKT VALUE (12/31/01):</b>	\$341,858,858.95	<b>STRS' POSITION RANK:</b>	#18
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 1.055%

# of Holders: 1,978  
 Shares Held: 1.42 Billion  
 % of Shares Out.: 57.30%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	1-Year	3-Year	5-Year
KO	-21.30%	-9.88%	-1.06%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Neg
2) Senior Unsecured Debt	Aa3
3) Preferred Stock	WR
4) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	A+
3) LT Local Issuer Credit	A+
4) ST Foreign Issuer Credit	A-1
5) ST Local Issuer Credit	A-1

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	140,572	\$6,627,969.80	0.01
TC0B	BGI ENHANCED	142,375	\$6,712,981.25	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	168,372	\$7,938,739.80	0.01
TC0E	MELLON CAPITAL MANAGEMENT	179,710	\$8,473,326.50	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	65,100	\$3,069,465.00	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	3,205,941	\$151,160,118.15	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	134,886	\$6,359,874.90	0.01
TC17	STRS-S P 500 INDEX	3,213,497	\$151,516,383.55	0.13
<b>TOTAL:</b>		7,250,453	\$341,858,858.95	0.31

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	Exxon Mobil <XOM>	<b>PRICE (2/13/02):</b>	\$38.64
<b>INDUSTRY:</b>	Oil (International Integrated)	<b>52-WK PRICE RANGE:</b>	\$35.01-45.83
<b>SHS HELD BY STRS (12/31/01):</b>	20,765,911	<b>% OF S/O:</b>	0.31%
<b>MKT VALUE (12/31/01):</b>	\$816,100,302.30	<b>STRS' POSITION RANK:</b>	#4
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 2.572%

# of Holders: 2,746  
 Shares Held: 3.45 Billion  
 % of Shares Out.: 50.44%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01:

	1-Year	3-Year	5-Year
XOM	-7.50%	4.71%	12.53%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### **Moody's**

1) Outlook	Stable
2) Issuer Rating	Aaa
3) Senior Unsecured Debt	WR
4) Short Term	P-1

#### **Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	AAA
3) LT Local Issuer Credit	AAA
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

### CalSTRS' PORTFOLIOS AS OF 12/31/01:

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	464,802.00	\$18,266,718.60	0.01
TC0B	BGI ENHANCED	383,438.00	\$15,069,113.40	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	444,600.00	\$17,472,780.00	0.01
TC0E	MELLON CAPITAL MANAGEMENT	299,124.00	\$11,755,573.20	0
TC0F	FIRST QUADRANT	113,000.00	\$4,440,900.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	247,088.00	\$9,710,558.40	0
TC0I	DELAWARE INVESTMENT ADVISORS	90,472.00	\$3,555,549.60	0
TC0J	BRINSON PARTNERS	694,100.00	\$27,278,130.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	8,818,793.00	\$346,578,564.90	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	371,062.00	\$14,582,736.60	0.01
TC17	STRS-S P 500 INDEX	8,839,432.00	\$347,389,677.60	0.13
<b>TOTAL:</b>		20,765,911.00	\$816,100,302.30	0.31

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	General Electric <GE>	<b>PRICE (2/13/02):</b>	\$38.10
<b>INDUSTRY:</b>	Electrical Equipment	<b>52-WK PRICE RANGE:</b>	\$28.50-53.55
<b>SHS HELD BY STRS (12/31/01):</b>	31,034,015	<b>% OF S/O:</b>	0.32%
<b>MKT VALUE (12/31/01):</b>	\$1,243,843,321.20	<b>STRS' POSITION RANK:</b>	#1
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 3.660%

# of Holders: 3,210  
 Shares Held: 5.13 Billion  
 % of Shares Out.: 51.71%

### AVERAGE ANNUAL COMPARATIVE RETURNS

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
GE	-14.95%	7.02%	21.13%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### **Moody's**

- |                          |        |
|--------------------------|--------|
| 1) Outlook               | Stable |
| 2) Issuer Rating         | Aaa    |
| 3) Senior Unsecured Debt | Aaa    |
| 4) Short Term            | P-1    |

#### **Standard & Poor's**

- |                             |        |
|-----------------------------|--------|
| 1) Outlook                  | Stable |
| 2) LT Foreign Issuer Credit | AAA    |
| 3) LT Local Issuer Credit   | AAA    |
| 4) ST Foreign Issuer Credit | A-1+   |
| 5) ST Local Issuer Credit   | A-1+   |

### CalSTRS' PORTFOLIOS AS OF 12/31/01

<b>Fund</b>	<b>Fund Name</b>	<b>Shares</b>	<b>Base Market Value</b>	<b>% of S/O</b>
TC0A	SSGA ENHANCED EQUITY	627,336	\$25,143,626.88	0.01
TC0B	BGI ENHANCED	609,704	\$24,436,936.32	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	645,036	\$25,853,042.88	0.01
TC0E	MELLON CAPITAL MANAGEMENT	589,067	\$23,609,805.36	0.01
TC0F	FIRST QUADRANT	484,000	\$19,398,720.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	436,300	\$17,486,904.00	0
TC0H	PUTNAM INVESTMENTS	307,280	\$12,315,782.40	0
TC0I	DELAWARE INVESTMENT ADVISORS	116,500	\$4,669,320.00	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	12,798,353	\$512,957,988.24	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	538,554	\$21,585,244.32	0.01
TC17	STRS-S P 500 INDEX	12,828,385	\$514,161,670.80	0.13
TC20	NCM CAPITAL MNGT GROUP INC	782,300	\$31,354,584.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	271,200	\$10,869,696.00	0
<b>TOTAL:</b>		31,034,015	\$1,243,843,321.20	0.32

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Home Depot <HD>	<b>PRICE (2/13/02):</b>	\$51.24
<b>INDUSTRY:</b>	Retail (Building Supplies)	<b>52-WK PRICE RANGE:</b>	\$30.30-53.73
<b>SHS HELD BY STRS (12/31/01):</b>	7,404,637	<b>% OF S/O:</b>	0.34%
<b>MKT VALUE (12/31/01):</b>	\$377,710,533.37	<b>STRS' POSITION RANK:</b>	#17
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 1.114%

# of Holders: 2,331  
 Shares Held: 1.41 Billion  
 % of Shares Out.: 60.33%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
HD	12.00%	8.07%	35.99%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Senior Unsecured Debt	Aa3
2) Subordinated Debt	A1
3) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	AA
3) LT Local Issuer Credit	AA
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	137,459.00	\$7,011,783.59	0.01
TC0B	BGI ENHANCED	160,464.00	\$8,185,268.64	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	162,809.00	\$8,304,887.09	0.01
TC0E	MELLON CAPITAL MANAGEMENT	140,750.00	\$7,179,657.50	0.01
TC0F	FIRST QUADRANT	178,000.00	\$9,079,780.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	96,050.00	\$4,899,510.50	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	3,021,024.00	\$154,102,434.24	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	127,149.00	\$6,485,870.49	0.01
TC17	STRS-S P 500 INDEX	3,028,082.00	\$154,462,462.82	0.13
TC20	NCM CAPITAL MNGT GROUP INC	191,800.00	\$9,783,718.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	161,050.00	\$8,215,160.50	0.01
<b>TOTAL:</b>		7,404,637.00	\$377,710,533.37	0.34



# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	Intel Corp. <INTC>	<b>PRICE (2/13/02):</b>	\$33.38
<b>INDUSTRY:</b>	Electronics (Semiconductors)	<b>52-WK PRICE RANGE:</b>	\$18.96-38.59
<b>SHS HELD BY STRS (12/31/01):</b>	21,607,106	<b>% OF S/O:</b>	0.35%
<b>MKT VALUE (12/31/01):</b>	\$679,543,483.70	<b>STRS' POSITION RANK:</b>	#7
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 2.227%

# of Holders: 3,187  
 Shares Held: 3.43 Billion  
 % of Shares Out.: 51.04%

### AVERAGE ANNUAL COMPARATIVE RETURNS

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
INTC	4.88%	2.19%	14.14%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Senior Unsecured Debt	A1
2) Subordinated Debt	A2
3) Preferred Stock	A3
4) Short Term	P-1

#### Standard & Poor's

1) LT Foreign Issuer Credit	A+
2) LT Local Issuer Credit	A+
3) ST Foreign Issuer Credit	A-1+
4) ST Local Issuer Credit	A-1+

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	477,948	\$15,031,464.60	0.01
TC0B	BGI ENHANCED	426,076	\$13,400,090.20	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	425,848	\$13,392,919.60	0.01
TC0E	MELLON CAPITAL MANAGEMENT	348,200	\$10,950,890.00	0.01
TC0F	FIRST QUADRANT	504,000	\$15,850,800.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	321,100	\$10,098,595.00	0
TC0H	PUTNAM INVESTMENTS	343,800	\$10,812,510.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	8,653,093	\$272,139,774.85	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	364,086	\$11,450,504.70	0.01
TC17	STRS-S P 500 INDEX	8,673,355	\$272,777,014.75	0.13
TC20	NCM CAPITAL MNGT GROUP INC	520,300	\$16,363,435.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	549,300	\$17,275,485.00	0.01
<b>TOTAL:</b>		21,607,106	\$679,543,483.70	0.35

**CALIFORNIA STATE TEACHERS' RETIRMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Int'l. Business Machines <IBM>	<b>PRICE (2/13/02):</b>	\$108.07
<b>INDUSTRY:</b>	Computers (Hardware)	<b>52-WK PRICE RANGE:</b>	\$87.49-126.39
<b>SHS HELD BY STRS (12/31/01):</b>	5,417,150	<b>% OF S/O:</b>	0.34%
<b>MKT VALUE (12/31/01):</b>	\$655,258,464.00	<b>STRS' POSITION RANK:</b>	#9
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 1.958%

# of Holders: 2,794  
 Shares Held: 912.06 Million  
 % of Shares Out.: 52.95%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
IBM	42.76%	9.99%	26.88%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Stable
2) Issuer Rating	A1
3) Senior Unsecured Debt	A1
4) Subordinated Debt	WR
5) Preferred Stock	A3
6) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	A+
3) LT Local Issuer Credit	A+
4) ST Foreign Issuer Credit	A-1
5) ST Local Issuer Credit	A-1

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	125,244	\$15,149,514.24	0.01
TC0B	BGI ENHANCED	99,675	\$12,056,688.00	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	109,844	\$13,286,730.24	0.01
TC0E	MELLON CAPITAL MANAGEMENT	112,468	\$13,604,129.28	0.01
TC0F	FIRST QUADRANT	35,000	\$4,233,600.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	87,300	\$10,559,808.00	0.01
TC0I	DELAWARE INVESTMENT ADVISORS	49,500	\$5,987,520.00	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	2,220,825	\$268,630,992.00	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	93,417	\$11,299,720.32	0.01
TC17	STRS-S P 500 INDEX	2,226,077	\$269,266,273.92	0.13
TC20	NCM CAPITAL MNGT GROUP INC	96,700	\$11,696,832.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	161,100	\$19,486,656.00	0.01
<b>TOTAL:</b>		5,417,150	\$655,258,464.00	0.34

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Johnson & Johnson <JNJ>	<b>PRICE (2/13/02):</b>	\$57.91
<b>INDUSTRY:</b>	Heath Care (Diversified)	<b>52-WK PRICE RANGE:</b>	\$40.25 – 60.97
<b>SHS HELD BY STRS (12/31/01):</b>	9,735,287	<b>% OF S/O:</b>	0.33%
<b>MKT VALUE (12/31/01):</b>	\$575,355,461.70	<b>STRS' POSITION RANK:</b>	#10
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 1.736%

# of Holders: 2,873  
 Shares Held: 1.92 Billion  
 % of Shares Out.: 62.97%

**AVERAGE ANNUAL COMPARATIVE RETURNS**

	1-Year	3-Year	5-Year
JNJ	13.95%	13.57%	20.48%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Stable
2) Issuer Rating	Aaa
3) Senior Unsecured Debt	Aaa
4) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	AAA
3) LT Local Issuer Credit	AAA
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	192,420	\$11,372,022.00	0.01
TC0B	BGI ENHANCED	200,672	\$11,859,715.20	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	186,578	\$11,026,759.80	0.01
TC0E	MELLON CAPITAL MANAGEMENT	138,400	\$8,179,440.00	0
TC0F	FIRST QUADRANT	103,000	\$6,087,300.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	159,300	\$9,414,630.00	0.01
TC0H	PUTNAM INVESTMENTS	139,000	\$8,214,900.00	0
TC0J	BRINSON PARTNERS	200,400	\$11,843,640.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	3,954,533	\$233,712,900.30	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	166,410	\$9,834,831.00	0.01
TC17	STRS-S P 500 INDEX	3,963,824	\$234,261,998.40	0.13
TC20	NCM CAPITAL MNGT GROUP INC	213,150	\$12,597,165.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	117,600	\$6,950,160.00	0
<b>TOTAL:</b>		9,735,287	\$575,355,461.70	0.33

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Merck & Co. <MRK>	<b>PRICE (2/13/02):</b>	\$60.58
<b>INDUSTRY:</b>	Health Care (Drugs-Major Pharmaceuticals)	<b>52-WK PRICE RANGE:</b>	\$56.80-85.55
<b>SHS HELD BY STRS (12/31/01):</b>	6,841,106	<b>% OF S/O:</b>	0.31%
<b>MKT VALUE (12/31/01):</b>	\$402,257,032.80	<b>STRS' POSITION RANK:</b>	#14
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 1.276%

# of Holders: 2,759  
 Shares Held: 1.36 Billion  
 % of Shares Out.: 59.89%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
MRK	-35.75%	-5.61%	9.97%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Stable
2) Issuer Rating	Aaa
3) Senior Unsecured Debt	Aaa
4) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	AAA
3) LT Local Issuer Credit	AAA
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	159,399	\$9,372,661.20	0.01
TC0B	BGI ENHANCED	132,263	\$7,777,064.40	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	158,699	\$9,331,501.20	0.01
TC0E	MELLON CAPITAL MANAGEMENT	133,526	\$7,851,328.80	0.01
TC0F	FIRST QUADRANT	16,000	\$940,800.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	85,800	\$5,045,040.00	0
TC0H	PUTNAM INVESTMENTS	56,700	\$3,333,960.00	0
TC0I	DELAWARE INVESTMENT ADVISORS	103,400	\$6,079,920.00	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	2,932,550	\$172,433,940.00	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	123,346	\$7,252,744.80	0.01
TC17	STRS-S P 500 INDEX	2,939,423	\$172,838,072.40	0.13
<b>TOTAL:</b>		6,841,106	\$402,257,032.80	0.31

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	Microsoft Corp. <MSFT>	<b>PRICE (2/13/02):</b>	\$61.82
<b>INDUSTRY:</b>	Computer (Software & Services)	<b>52-WK PRICE RANGE:</b>	\$47.50-76.15
<b>SHS HELD BY STRS (12/31/01):</b>	16,883,755	<b>% OF S/O:</b>	0.33%
<b>MKT VALUE (12/31/01):</b>	\$1,118,548,768.75	<b>STRS' POSITION RANK:</b>	#2
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 3.563%

# of Holders: 3,338  
 Shares Held: 2.65 Billion  
 % of Shares Out.: 49.16%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	1-Year	3-Year	5-Year
MSFT	52.39%	-1.51%	26.23%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

Moody's		Standard & Poor's	
1) Outlook	Pos	1) Outlook	Stable
2) Issuer Rating	Aa2	2) LT Foreign Issuer Credit	AA
3) Preferred Stock	WR	3) LT Local Issuer Credit	AA

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	340,485.00	\$22,557,131.25	0.01
TC0B	BGI ENHANCED	312,728.00	\$20,718,230.00	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	345,885.00	\$22,914,881.25	0.01
TC0E	MELLON CAPITAL MANAGEMENT	274,200.00	\$18,165,750.00	0.01
TC0F	FIRST QUADRANT	318,000.00	\$21,067,500.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	237,900.00	\$15,760,875.00	0
TC0H	PUTNAM INVESTMENTS	264,900.00	\$17,549,625.00	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	6,943,300.00	\$459,993,625.00	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	292,163.00	\$19,355,798.75	0.01
TC17	STRS-S P 500 INDEX	6,959,594.00	\$461,073,102.50	0.13
TC20	NCM CAPITAL MNGT GROUP INC	349,000.00	\$23,121,250.00	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	245,600.00	\$16,271,000.00	0
<b>TOTAL:</b>		16,883,755.00	\$1,118,548,768.75	0.33

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Pfizer Inc. <PFE>	<b>PRICE (2/13/02):</b>	\$41.09
<b>INDUSTRY:</b>	Health Care (Drugs – Major Pharmaceuticals)	<b>52-WK PRICE RANGE:</b>	\$34.00-46.71
<b>SHS HELD BY STRS (12/31/01):</b>	20,123,225	<b>% OF S/O:</b>	0.35%
<b>MKT VALUE (12/31/01):</b>	\$801,910,516.25	<b>STRS' POSITION RANK:</b>	#5
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 2.430%

# of Holders: 3,121  
 Shares Held: 3.92 Billion  
 % of Shares Out.: 62.29%

**AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01**

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
PFE	-12.40%	-0.57%	24.72%
S&P 500	-11.81	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Stable
2) Issuer Rating	Aaa
3) Senior Unsecured Debt	Aaa
4) Subordinated Debt	WR
5) Short Term	P-1

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	AAA
3) LT Local Issuer Credit	AAA
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	405,573.00	\$16,162,084.05	0.01
TC0B	BGI ENHANCED	442,751.00	\$17,643,627.35	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	413,048.00	\$16,459,962.80	0.01
TC0E	MELLON CAPITAL MANAGEMENT	380,375.00	\$15,157,943.75	0.01
TC0F	FIRST QUADRANT	414,000.00	\$16,497,900.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	336,475.00	\$13,408,528.75	0.01
TC0H	PUTNAM INVESTMENTS	417,025.00	\$16,618,446.25	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	8,104,825.00	\$322,977,276.25	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	341,036.00	\$13,590,284.60	0.01
TC17	STRS-S P 500 INDEX	8,123,792.00	\$323,733,111.20	0.13
TC20	NCM CAPITAL MNGT GROUP INC	515,125.00	\$20,527,731.25	0.01
TC28	BROWN CAPITAL MANAGEMENT INC.	229,200.00	\$9,133,620.00	0
<b>TOTAL:</b>		20,123,225.00	\$801,910,516.25	0.35

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	Proctor & Gamble <PG>	<b>PRICE (2/13/02):</b>	\$83.73
<b>INDUSTRY:</b>	Household Products (Nondurables)	<b>52-WK PRICE RANGE:</b>	\$55.96-81.72
<b>SHS HELD BY STRS (12/31/01):</b>	3,918,997	<b>% OF S/O:</b>	0.32%
<b>MKT VALUE (12/31/01):</b>	\$310,110,232.61	<b>STRS' POSITION RANK:</b>	#20
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 0.987%

# of Holders: 2,079  
 Shares Held: 670.29 Million  
 % of Shares Out.: 51.73%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
PG	3.02%	-2.95%	9.77%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Outlook	Stable
2) Issuer Rating	Aa3
3) Senior Unsecured Debt	Aa3
4) Preferred Stock	WR
5) Short Term	P-1

#### Standard & Poor's

1) Outlook	Stable
2) LT Foreign Issuer Credit	AA-
3) LT Local Issuer Credit	AA-
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	49,203	\$3,893,433.39	0
TC0B	BGI ENHANCED	93,441	\$7,393,986.33	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	82,403	\$6,520,549.39	0.01
TC0E	MELLON CAPITAL MANAGEMENT	68,100	\$5,388,753.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	73,100	\$5,784,403.00	0.01
TC0I	DELAWARE INVESTMENT ADVISORS	90,200	\$7,137,526.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	1,670,312	\$132,171,788.56	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	70,234	\$5,557,616.42	0.01
TC17	STRS-S P 500 INDEX	1,674,204	\$132,479,762.52	0.13
TC20	NCM CAPITAL MNGT GROUP INC	47,800	\$3,782,414.00	0
<b>TOTALS:</b>		3,918,997	\$310,110,232.61	0.32

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	SBC Communications <SBC>	<b>PRICE (2/13/02):</b>	\$36.78
<b>INDUSTRY:</b>	Financial (Diversified)	<b>52-WK PRICE RANGE:</b>	\$36.50-51.24
<b>SHS HELD BY STRS (12/31/01):</b>	10,462,149	<b>% OF S/O:</b>	0.33%
<b>MKT VALUE (12/31/01):</b>	\$409,802,376.33	<b>STRS' POSITION RANK:</b>	#13
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 1.215%

# of Holders: 2,324  
 Shares Held: 1.60 Billion  
 % of Shares Out.: 47.51%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
SBC	-15.91%	-8.01%	11.14%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Outlook	Neg
2) Issuer Rating	Aa3
3) Senior Unsecured Debt	Aa3
4) Short Term	P-1

#### Standard & Poor's

1) Outlook	Stable
2) LT Foreign Issuer Credit	AA-
3) LT Local Issuer Credit	AA-
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

### CalSTRS' PORTFOLIOS AS OF 12/1/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	193,436.00	\$7,576,888.12	0.01
TC0B	BGI ENHANCED	194,433.00	\$7,615,940.61	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	216,147.00	\$8,466,477.99	0.01
TC0E	MELLON CAPITAL MANAGEMENT	209,101.00	\$8,190,486.17	0.01
TC0F	FIRST QUADRANT	42,000.00	\$1,645,140.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	138,553.00	\$5,427,121.01	0
TC0H	PUTNAM INVESTMENTS	51,400.00	\$2,013,338.00	0
TC0I	DELAWARE INVESTMENT ADVISORS	210,159.00	\$8,231,928.03	0.01
TC0J	BRINSON PARTNERS	347,000.00	\$13,591,990.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	4,333,716.00	\$169,751,655.72	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	182,339.00	\$7,142,218.63	0.01
TC17	STRS-S P 500 INDEX	4,343,865.00	\$170,149,192.05	0.13
<b>TOTAL:</b>		10,462,149.00	\$409,802,376.33	0.33



**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
TOP 20 HOLDINGS - COMPANY REPORT**

<b>COMPANY NAME:</b>	Tyco International Ltd. <TYC>	<b>PRICE (2/13/02):</b>	\$28.90
<b>INDUSTRY:</b>	Manufacturing (Diversified)	<b>52-WK PRICE RANGE:</b>	\$39.24-63.21
<b>SHS HELD BY STRS (12/31/01):</b>	6,459,390	<b>% OF S/O:</b>	0.35%
<b>MKT VALUE (12/31/01):</b>	\$380,458,071.00	<b>STRS' POSITION RANK:</b>	#16
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

**INSTITUTIONAL OWNERSHIP**

**S&P 500 WTG:** 0.915%

# of Holders: 2,333  
 Shares Held: 1.57 Billion  
 % of Shares Out.: 78.44%

**AVERAGE ANNUAL COMPARATIVE RETURNS**

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
TYC	6.20%	16.12%	35.01%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

**CREDIT RATING**

**Moody's**

1) Outlook	Pos
2) Bank Loan Debt	Baa1
3) Senior Unsecured Debt	Baa1
4) Subordinated Debt	Baa2
5) Preferred Stock	Baa3

**Standard & Poor's**

1) Outlook	Stable
2) LT Foreign Issuer Credit	A
3) LT Local Issuer Credit	A
4) ST Foreign Issuer Credit	A-1
5) ST Local Issuer Credit	A-1

**CalSTRS' PORTFOLIOS AS OF 12/31/01**

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	122,778.00	\$7,231,624.20	0.01
TC0B	BGI ENHANCED	133,775.00	\$7,879,347.50	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	133,134.00	\$7,841,592.60	0.01
TC0E	MELLON CAPITAL MANAGEMENT	132,182.00	\$7,785,519.80	0.01
TC0F	FIRST QUADRANT	210,000.00	\$12,369,000.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	135,700.00	\$7,992,730.00	0.01
TC0H	PUTNAM INVESTMENTS	138,500.00	\$8,157,650.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	2,572,084.00	\$151,495,747.60	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	108,220.00	\$6,374,158.00	0.01
TC17	STRS-S P 500 INDEX	2,578,117.00	\$151,851,091.30	0.13
TC20	NCM CAPITAL MNGT GROUP INC	194,900.00	\$11,479,610.00	0.01
<b>TOTAL:</b>		6,459,390.00	\$380,458,071.00	0.35

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	Verizon Communications <VZ>	<b>PRICE (2/13/02):</b>	\$45.30
<b>INDUSTRY:</b>	Telephone	<b>52-WK PRICE RANGE:</b>	\$43.80-57.40
<b>SHS HELD BY STRS (12/31/01):</b>	8,217,451	<b>% OF S/O:</b>	0.32%
<b>MKT VALUE (12/31/01):</b>	\$390,000,224.46	<b>STRS' POSITION RANK:</b>	#15
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 1.301%

# of Holders: 2,381  
 Shares Held: 1.29 Billion  
 % of Shares Out.: 47.48%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
VZ	-2.54%	-1.58%	11.33%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Outlook Neg  
 2) Senior Unsecured Debt A1

#### Standard & Poor's

1) Outlook Stable  
 2) LT Foreign Issuer Credit A+  
 3) LT Local Issuer Credit A+

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	129,141.00	\$6,129,031.86	0
TC0B	BGI ENHANCED	164,116.00	\$7,788,945.36	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	175,943.00	\$8,350,254.78	0.01
TC0E	MELLON CAPITAL MANAGEMENT	153,395.00	\$7,280,126.70	0.01
TC0F	FIRST QUADRANT	46,000.00	\$2,183,160.00	0
TC0G	CHICAGO EQUITY PARTNERS CORP	147,314.00	\$6,991,522.44	0.01
TC0I	DELAWARE INVESTMENT ADVISORS	76,090.00	\$3,611,231.40	0
TC0J	BRINSON PARTNERS	171,000.00	\$8,115,660.00	0.01
TC11	BARCLAYS GLOBAL INVESTORS, NA	3,499,467.00	\$166,084,703.82	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	147,270.00	\$6,989,434.20	0.01
TC17	STRS-S P 500 INDEX	3,507,715.00	\$166,476,153.90	0.13
<b>TOTAL:</b>		8,217,451.00	\$390,000,224.46	0.32

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## TOP 20 HOLDINGS - COMPANY REPORT

<b>COMPANY NAME:</b>	Wal-Mart Stores <WMT>	<b>PRICE (2/13/02):</b>	\$60.12
<b>INDUSTRY:</b>	Retail (General Merchandise)	<b>52-WK PRICE RANGE:</b>	\$41.50-58.74
<b>SHS HELD BY STRS (12/31/01):</b>	13,792,012	<b>% OF S/O:</b>	0.32%
<b>MKT VALUE (12/31/01):</b>	\$793,730,290.60	<b>STRS' POSITION RANK:</b>	#6
<b>ANALYST:</b>	R. Kwong/T. Manzitto	<b>DATE:</b>	1/15/2002

### INSTITUTIONAL OWNERSHIP

**S&P 500 WTG:** 2.425%

# of Holders: 2,435  
 Shares Held: 1.60 Billion  
 % of Shares Out.: 35.80%

### AVERAGE ANNUAL COMPARATIVE RETURNS AS OF 12/31/01

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
WMT	8.87%	12.73%	39.02%
S&P 500	-11.81%	-1.02%	10.69%
Russell 3000	-11.46%	-0.31%	10.14%
Russell Small Cap Completeness	-10.70%	2.30%	7.64%

### CREDIT RATING

#### Moody's

1) Outlook	Stable
2) Issuer Rating	Aa2
3) Senior Secured Debt	Aa1
4) Senior Unsecured Debt	Aa2
5) Subordinated Debt	WR
6) Short Term	P-1

#### Standard & Poor's

1) Outlook	Stable
2) LT Foreign Issuer Credit	AA
3) LT Local Issuer Credit	AA
4) ST Foreign Issuer Credit	A-1+
5) ST Local Issuer Credit	A-1+

### CalSTRS' PORTFOLIOS AS OF 12/31/01

Fund	Fund Name	Shares	Market Value	% of S/O
TC0A	SSGA ENHANCED EQUITY	242,720	\$13,968,536.00	0.01
TC0B	BGI ENHANCED	250,512	\$14,416,965.60	0.01
TC0D	DSI INTERNATIONAL MANAGEMENT	283,820	\$16,333,841.00	0.01
TC0E	MELLON CAPITAL MANAGEMENT	210,238	\$12,099,196.90	0
TC0F	FIRST QUADRANT	285,000	\$16,401,750.00	0.01
TC0G	CHICAGO EQUITY PARTNERS CORP	170,500	\$9,812,275.00	0
TC0H	PUTNAM INVESTMENTS	143,700	\$8,269,935.00	0
TC11	BARCLAYS GLOBAL INVESTORS, NA	5,746,066	\$330,686,098.30	0.13
TC15	STRS TRANSITION ACCOUNT - TC15	241,753	\$13,912,885.15	0.01
TC17	STRS-S P 500 INDEX	5,759,503	\$331,459,397.65	0.13
TC20	NCM CAPITAL MNGT GROUP INC	219,300	\$12,620,715.00	0
TC28	BROWN CAPITAL MANAGEMENT INC.	238,900	\$13,748,695.00	0.01
<b>TOTAL:</b>		13,792,012	\$793,730,290.60	0.32

BENCHMARKS COMPARISON				1 yr	A'3 yr	A'5 yr
S&P 500				(14.83)	3.89	14.48
Russell 3000				(13.93)	4.25	13.76
Russell Small Cap Completeness				(17.53)	4.74	10.71

ISSUER	TICKER	CUSIP	Shares Held	Market Value	(000)	Annualized Returns @ 06/30/01			CalSTRS	% of SO	% of SO
						1 yr	A'3 yr	A'5 yr	% of SO	Insiders	Inst.
HERCULES INC	HPC	427056106	1,923,624.00	21,736,951.20	108007	(19.16)	(32.91)	(25.22)	1.78%	2.00%	66.96%
MODIS PROFESSIONAL SVCS INC	MPS	607830106	303,726.00	2,095,709.40	97743	(9.51)	(39.56)	(24.02)	0.31%	8.59%	70.48%
ASCENTIAL SOFTWARE CORP	ASCL	04362P108	655,261.00	3,826,724.24	288342	(21.48)	(9.60)	(23.64)	0.23%	1.66%	38.18%
U S INDS INC NEW	USI	912080108	4,204,957.00	17,240,323.70	74284	(65.79)	(44.37)	(23.22)	5.66%	5.00%	84.37%
IMC GLOBAL INC	IGL	449669100	226,070.00	2,305,913.99	114763	(20.38)	(29.08)	(21.89)	0.20%	1.75%	77.50%
DEPARTMENT 56 INC	DFS	249509100	357,300.00	2,733,345.00	12882	(30.45)	(40.05)	(19.50)	2.77%	11.30%	91.42%
NEWMONT MNG CORP	NEM	651639106	490,841.00	9,134,551.00	195472	(13.36)	(7.07)	(17.13)	0.25%	2.20%	69.94%
XEROX CORP	XRX	984121103	1,798,147.00	17,208,266.78	694265	(52.59)	(41.33)	(16.83)	0.26%	1.00%	61.65%
NOVELL INC	NOVL	670006105	759,065.00	4,319,079.84	317577	(38.49)	(23.58)	(16.33)	0.24%	2.10%	39.34%
OWENS ILL INC	OI	690768403	321,840.00	2,182,075.19	145071	(41.99)	(46.69)	(15.78)	0.22%	2.00%	71.92%
AMERICAN GREETINGS CORP	AM	026375105	1,602,252.00	17,624,772.00	63494	(39.29)	(37.86)	(14.19)	2.52%	*	*
CALLAWAY GOLF CO	ELY	131193104	222,179.00	3,510,428.20	76757	(1.68)	(5.24)	(12.51)	0.29%	5.70%	76.08%
3COM CORP	COMS	885535104	768,898.00	3,652,265.50	338185	(58.86)	(8.25)	(12.32)	0.23%	5.30%	51.36%
ADAPTEC INC	ADPT	00651F108	223,456.00	2,221,152.64	98565	(45.00)	(4.38)	(11.98)	0.23%	1.00%	70.36%
SAKS INC	SKS	79377W108	332,986.00	3,196,665.60	141848	(8.57)	(38.05)	(11.57)	0.23%	7.47%	54.29%
PRIMEDIA INC	PRM	74157K101	1,040,175.00	7,062,788.24	216050	(70.15)	(20.60)	(11.49)	0.48%	6.10%	26.75%
NETWORKS ASSOCS INC	NETA	640938106	330,935.00	4,120,140.75	136665	(38.90)	(36.17)	(10.58)	0.24%	4.40%	63.88%
GREAT LAKES CHEMICAL CORP	GLK	390568103	149,133.00	4,600,753.04	50275	(1.07)	(7.01)	(10.37)	0.30%	4.60%	93.08%
BARRICK GOLD CORP	ABX	067901108	1,004,015.00	15,210,827.25	396005	(15.55)	(6.59)	(10.10)	0.25%	N/A	56.08%
PG+E CORP	PCG	69331C108	1,023,925.00	11,467,959.99	387135	(53.41)	(26.51)	(9.79)	0.26%	1.00%	48.62%
INTERNATIONAL FLAVOURS	IFF	459506101	253,480.00	6,369,952.40	95808	(13.61)	(13.25)	(8.73)	0.26%	16.80%	67.74%
CROMPTON CORP	CK	227116100	264,155.00	2,879,289.50	113104	(9.18)	(23.46)	(7.51)	0.23%	6.70%	79.79%
UAL CORP	UAL	902549500	122,032.00	4,289,424.79	53118	(37.75)	(22.40)	(7.48)	0.23%	1.00%	63.92%
EASTMAN KODAK CO	EK	277461109	784,257.00	36,609,116.76	290048	(18.66)	(11.31)	(7.22)	0.27%	2.00%	69.22%
LUCENT TECHNOLOGIES INC	LU	549463107	8,647,181.00	53,612,522.19	3405811	(88.83)	(45.76)	(6.71)	0.25%	1.00%	30.39%
BOSTON SCIENTIFIC CORP	BSX	101137107	1,100,715.00	18,712,155.00	401422	(22.51)	(21.99)	(5.45)	0.27%	21.70%	50.65%
ACXIOM CORP	ACXM	005125109	219,785.00	2,876,985.65	89221	(51.96)	(19.33)	(5.16)	0.25%	10.20%	74.79%
EDISON INTL	EIX	281020107	866,330.00	9,659,579.49	325811	(44.85)	(25.12)	(4.92)	0.27%	1.00%	64.25%
ALBERTSONS INC	ABS	013104104	1,032,884.00	30,976,191.16	405000	(7.26)	(15.00)	(4.49)	0.26%	2.20%	63.02%
WORLDCOM INC/WORLDCOM GRP	WCOM	98157D106	7,977,770.00	113,284,334.00	2888055	(67.81)	(22.95)	(4.36)	0.28%	1.80%	53.79%

\*Institutional investors own the majority of the company; however, insiders own 34% of Class B common with supervoting rights at 10 votes per share vs. Class A with 1 vote per share.

- Notes: (1) Companies w/ <\$2M mkt val eliminated  
(2) Companies w/ POSITIVE 5, 3, or 1 year returns eliminated.  
(3) Holdings of <0.20% of S/O eliminated.  
(4) Companies in BOLD are also on CII Focus List for 2001.  
(5) Companies in ITALICS have exceeded either (1) >10% insider ownership, or (2) <50% institutional ownership.

## Acxiom Corporation

### **Sub-Industry:**

IT Consulting & Services

**Summary:** ACXM provides data products, data integration services and mailing list processing services, as well as data warehousing and decision support services.

### ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2002</b>	-0.34	<b>Tang. Bk. Value/Share</b>	3.52
<b>P/E on S&amp;P Est. 2002</b>	NM	<b>Beta</b>	1.15
<b>S&amp;P EPS Est. 2003</b>	0.71	<b>Shareholders</b>	2,058
<b>Dividend Rate/Share</b>	Nil	<b>Market cap. (B)</b>	\$ 1.2
<b>Shs. outstg. (M)</b>	86.9	<b>Inst. holdings</b>	71%
<b>Avg. daily vol. (M)</b>	1.598		

Value of \$10,000 invested 5 years ago:\$ 7,756

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
ACXM	-6.15	-17.39	-54.94
S&P 400 Midcap	16.09	10.23	-0.59
S&P 400 Midcap IT Consulting	-3.83	-11.14	24.68

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

ACXM	76.73
S&P 400 Midcap	-3.05
S&P 400 Midcap IT Consulting	23.07

## Adaptec, Inc.

### **Sub-Industry:**

Networking Equipment

**Summary:** ADPT is the leading provider of Small Computer System Interface (SCSI) technology, which manages the input and output of data between a computer and its peripherals.

### ***Key Stock Statistics***

S&P EPS Est. 2002	0.27	Tang. Bk. Value/Share	4.75
P/E on S&P Est. 2002	64.1	Beta	1.60
S&P EPS Est. 2003	0.36	Shareholders	767
Dividend Rate/Share	Nil	Market cap. (B)	\$ 1.8
Shs. outstg. (M)	105.6	Inst. holdings	61%
Avg. daily vol. (M)	1.738		

Value of \$10,000 invested 5 years ago:NA

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
ADPT	-14.20	1.91	80.78
S&P 600 Smallcap	10.65	10.21	6.51
S&P Smallcap Ntwr Equip	31.32	48.87	75.51

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

ADPT	110.64
S&P 600 Smallcap	0.58
S&P Smallcap Ntwr Equip	5.82

## Albertson's, Inc.

### **Sub-Industry:**

Food Retail

**Summary:** This operator of supermarkets and combination food-drug stores, one of the largest U.S. food-drug retailers, operates more than 2,500 stores in 36 states.

### ***Key Stock Statistics***

S&P EPS Est. 2002	1.89	Tang. Bk. Value/Share	10.08
P/E on S&P Est. 2002	15.3	Beta	0.23
S&P EPS Est. 2003	2.06	Shareholders	32,000
Dividend Rate/Share	0.76	Market cap. (B)	\$ 11.8
Shs. outstg. (M)	406.3	Inst. holdings	60%
Avg. daily vol. (M)	1.223		

Value of \$10,000 invested 5 years ago:\$ 8,904

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
ABS	-0.55	-19.18	21.60
S&P 500	10.69	-1.02	-11.82
S&P 500 Food Retail	2.16	-15.42	-20.99

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

ABS	12.68
S&P 500	-10.66
S&P 500 Food Retail.	-23.24

# American Greetings Corporation

## **Sub-Industry:**

Housewares & Specialties

**Summary:** AM is the world's largest publicly owned greeting card company, with operations in more than 70 countries.

## ***Key Stock Statistics***

S&P EPS Est. 2002	0.99	Tang. Bk. Value/Share	10.30
P/E on S&P Est. 2002	13.0	Beta	0.97
S&P EPS Est. 2003	1.25	Shareholders	28,800
Dividend Rate/Share	Nil	Market cap. (B)	\$0.763
Shs. outstg. (M)	63.7	Inst. holdings	0%
Avg. daily vol. (M)	1.166		

Value of \$10,000 invested 5 years ago:\$ 5,278

## **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
AM	-10.72	-27.72	50.24
S&P 500	10.69	-1.02	-11.82
Russell 2000 Other	-2.80	-7.28	23.66

## **Short-Term Returns (%) 6/30/01 - 12/31/01**

AM	60.72
S&P 500	-10.66
Russell 2000 Other	10.83



# Ascential Software Corporation

## **Sub-Industry:**

Systems Software

**Summary:** ASCL, formerly Informix Corp., develops information management software and solutions.

## ***Key Stock Statistics***

S&P EPS Est. 2002	-0.08	Tang. Bk. Value/Share	0.93
P/E on S&P Est. 2002	NM	Beta	2.46
Dividend Rate/Share	Nil	Shareholders	4,450
Shs. outstg. (M)	259.4	Market cap. (B)	\$ 1.1
Avg. daily vol. (M)	2.115	Inst. holdings	48%

Value of \$10,000 invested 5 years ago:\$ 2,106

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
ASCL	-27.60	-25.68	36.19
S&P 400 Midcap	16.09	10.23	-0.59
S&P Midcap Sys Software	32.37	6.36	16.80

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

ASCL	-51.43
S&P 400 Midcap	-3.05
S&P Midcap Sys Software	53.80

# Barrick Gold Corporation

## **Industry:**

Gold & Precious Metals Mining

**Summary:** ABX is one of the world's largest gold producers, and the second largest in the Americas.

## ***Key Stock Statistics***

S&P EPS Est. 2000	0.80	Tang. Bk. Value/Share	10.25
P/E on S&P Est. 2000	20.5	Beta	0.73
S&P EPS Est. 2001	0.90	Shareholders	13,369
Dividend Rate/Share	0.22	Market cap. (B)	\$ 6.5
Shs. outstg. (M)	396.0	Inst. holdings	46%
Avg. daily vol. (M)	1.640		

Value of \$10,000 invested 5 years ago:\$ 7,752

## **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
ABX	-10.11	-5.26	-1.26
S&P 500	10.69	-1.02	-11.82
S&P 500 Gold	-13.14	-4.37	12.33

## **Short-Term Returns (%) 6/30/01 - 12/31/01**

ABX	12.28
S&P 500	-10.66
S&P 500 Gold	12.96

# Boston Scientific Corporation

## **Sub-Industry:**

Health Care Equipment

**Summary:** BSX is a leading manufacturer of minimally invasive medical devices used in interventional cardiology, radiology and other medical applications.

## ***Key Stock Statistics***

S&P EPS Est. 2002	0.95	Tang. Bk. Value/Share	0.66
P/E on S&P Est. 2002	24.7	Beta	0.64
S&P EPS Est. 2003	1.15	Shareholders	10,082
Dividend Rate/Share	Nil	Market cap. (B)	\$ 9.5
Shs. outstg. (M)	403.3	Inst. holdings	50%
Avg. daily vol. (M)	1.891		

Value of \$10,000 invested 5 years ago:\$ 6,493

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
BSX	-4.27	-3.46	75.68
S&P 500	10.69	-1.02	-11.82
S&P 500 HLTH CR EQIP Index	16.69	8.09	-5.55

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

BSX	99.41
S&P 500	-10.66
S&P 500 HLTH CR EQIP Index	29.27

# Callaway Golf Company

## **Sub-Industry:**

Leisure Products

**Summary:** ELY designs, makes and markets premium, innovative golf clubs primarily under the Big Bertha brand name.

## ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2002</b>	1.00	<b>Tang. Bk. Value/Share</b>	5.17
<b>P/E on S&amp;P Est. 2002</b>	16.8	<b>Beta</b>	1.16
<b>Dividend Rate/Share</b>	0.28	<b>Shareholders</b>	9,000
<b>Shs. outstg. (M)</b>	77.9	<b>Market cap. (B)</b>	\$ 1.3
<b>Avg. daily vol. (M)</b>	0.627	<b>Inst. holdings</b>	62%

Value of \$10,000 invested 5 years ago:\$ 5,353

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
ELY	-6.29	25.42	4.27
S&P 400 Midcap	16.09	10.23	-0.59
S&P Midcap Leisure Prod	-2.33	19.10	2.80

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

ELY	48.53
S&P 400 Midcap	-3.05
S&P Midcap Leisure Prod	46.14

# Crompton Corporation

## **Sub-Industry:**

Specialty Chemicals

**Summary:** CK, formerly CK Witco, was formed by the 1999 merger of Crompton & Knowles with Witco Corp., creating one of the world's largest specialty chemical companies.

## ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2002</b>	0.30	<b>Tang. Bk. Value/Share</b>	NM
<b>P/E on S&amp;P Est. 2002</b>	33.3	<b>Beta</b>	0.86
<b>Dividend Rate/Share</b>	0.20	<b>Shareholders</b>	6,371
<b>Shs. outstg. (M)</b>	113.0	<b>Market cap. (B)</b>	\$ 1.1
<b>Avg. daily vol. (M)</b>	0.287	<b>Inst. holdings</b>	78%

Value of \$10,000 invested 5 years ago:\$ 5,165

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
CK	-13.19	-23.20	-12.39
S&P Midcap 400	16.09	10.23	-0.59
S&P Midcap Spclty. Chemical	1.02	2.77	20.45

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

CK	-29.78
S&P Midcap 400	-3.05
S&P Midcap Spclty. Chemical	17.17

## Department 56, Inc.

### **Sub-Industry:**

Housewares & Specialties

**Summary:** DFS designs collectibles and other specialty giftware products sold through gift and home accessories retailers.

### ***Key Stock Statistics***

<b>Dividend Rate/Share</b>	Nil	<b>Shareholders</b>	800
<b>Shs. outstg. (M)</b>	12.9	<b>Market cap. (B)</b>	\$0.139
<b>Avg. daily vol. (M)</b>	0.073	<b>Inst. holdings</b>	84%
<b>Tang. Bk. Value/Share</b>	NM		
<b>Beta</b>	1.11		

Value of \$10,000 invested 5 years ago:\$ 4,344

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
DFS	-18.96	-38.80	-25.10
S&P 600 Smallcap	10.65	10.21	-6.51
S&P Smallcap Hswr & Sp	-6.05	-7.25	14.22

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

DFS	25.98
S&P 600 Smallcap	0.58
S&P Smallcap Hswr & Sp	-12.00

# Eastman Kodak Company

## **Sub-Industry:**

Photographic Products

**Summary:** EK has a large presence in consumer, professional and health imaging.

## ***Key Stock Statistics***

S&P EPS Est. 2002	2.05	Tang. Bk. Value/Share	8.12
P/E on S&P Est. 2002	13.4	Beta	0.58
Dividend Rate/Share	1.80	Shareholders	113,308
Shs. outstg. (M)	291.8	Market cap. (B)	\$ 8.0
Avg. daily vol. (M)	3.382	Inst. holdings	68%

Value of \$10,000 invested 5 years ago:\$ 3,824

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
EK	-15.67	-23.20	-21.83
S&P 500	10.69	-1.02	-11.82
S&P 500 Photo Products	-18.98	-26.08	-25.14

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

EK	-57.75
S&P 500	-10.66
S&P 500 Photo Products	-59.75

# Edison International

## **Sub-Industry:**

Electric Utilities

**Summary:** EIX is the holding company for Southern California Edison. Other businesses include electric power generation, financial investments and real estate development.

## ***Key Stock Statistics***

S&P EPS Est. 2001	-3.20	Tang. Bk. Value/Share	7.43
P/E on S&P Est. 2001	NM	Beta	-0.20
S&P EPS Est. 2002	1.55	Shareholders	80,070
Dividend Rate/Share	Nil	Market cap. (B)	\$ 4.9
Shs. outstg. (M)	325.8	Inst. holdings	67%
Avg. daily vol. (M)	1.637		

Value of \$10,000 invested 5 years ago:\$ 8,761

## **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
EIX	-2.32	-16.26	-3.34
S&P 500	10.69	-1.02	-11.82
S&P 500 Elec. Util.	4.56	-1.92	-19.48

## **Short-Term Returns (%) 6/30/01 - 12/31/01**

EIX	81.91
S&P 500	-10.66
S&P 500 Elec. Util.	-24.45



# Great Lakes Chemical Corporation

## **Sub-Industry:**

Specialty Chemicals

**Summary:** GLK, the world's leading producer of certain specialty chemicals, plans to spin off its energy services business.

## ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2002</b>	1.00	<b>Tang. Bk. Value/Share</b>	10.37
<b>P/E on S&amp;P Est. 2002</b>	22.0	<b>Beta</b>	0.87
<b>Dividend Rate/Share</b>	0.32	<b>Shareholders</b>	2,501
<b>Shs. outstg. (M)</b>	50.2	<b>Market cap. (B)</b>	\$ 1.1
<b>Avg. daily vol. (M)</b>	0.219	<b>Inst. holdings</b>	93%

Value of \$10,000 invested 5 years ago:NA

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
GLK	-8.81	-14.47	-33.77
S&P 500	10.69	-1.02	-11.82
S&P 500 Spclty. Chemical	-0.49	-2.16	4.46

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

GLK	-36.80
S&P 500	-10.66
S&P 500 Spclty. Chemical	5.22

# Hercules Incorporated

## **Sub-Industry:**

Diversified Chemicals

**Summary:** HPC is a leading producer of paper and water treatment chemicals, process chemicals, and specialty polymers.

## ***Key Stock Statistics***

S&P EPS Est. 2002	0.80	Tang. Bk. Value/Share	NM
P/E on S&P Est. 2002	11.7	Beta	0.98
Dividend Rate/Share	Nil	Shareholders	16,357
Shs. outstg. (M)	108.5	Market cap. (B)	\$ 1.0
Avg. daily vol. (M)	0.316	Inst. holdings	67%

Value of \$10,000 invested 5 years ago:\$ 2,371

## **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
HPC	-23.46	-26.57	-47.36
S&P 500	10.69	-1.02	-11.82
S&P 500 Div Chem	0.87	-2.61	-9.73

## **Short-Term Returns (%) 6/30/01 - 12/31/01**

HPC	-21.43
S&P 500	-10.66
S&P 500 Div Chem	-13.37

## IMC Global Inc.

### **Sub-Industry:**

Fertilizers & Agricultural Chemicals

**Summary:** IGL is one of the world's largest producers and distributors of crop nutrients, including phosphate and potash, and animal feed ingredients.

### ***Key Stock Statistics***

S&P EPS Est. 2002	0.20	Tang. Bk. Value/Share	3.01
P/E on S&P Est. 2002	69.6	Beta	0.77
Dividend Rate/Share	0.08	Shareholders	5,957
Shs. outstg. (M)	114.9	Market cap. (B)	\$ 1.6
Avg. daily vol. (M)	0.501	Inst. holdings	80%

Value of \$10,000 invested 5 years ago:\$ 4,206

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
IGL	-18.63	-13.89	-15.77
S&P 400 Midcap	16.09	10.23	-0.59
S&P Midcap Fert & Agri	-19.77	-15.26	-16.39

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

IGL	62.58
S&P 400 Midcap	-3.05
S&P Midcap Fert & Agri	61.36

# International Flavors & Fragrances Inc.

## **Sub-Industry:**

Specialty Chemicals

**Summary:** IFF, a leading producer of flavors and fragrances used in a wide variety of consumer goods, derives over two-thirds of sales and earnings from operations outside the U.S.

## ***Key Stock Statistics***

S&P EPS Est. 2002	1.92	Tang. Bk. Value/Share	NM
P/E on S&P Est. 2002	16.8	Beta	0.69
Dividend Rate/Share	0.60	Shareholders	3,741
Shs. outstg. (M)	94.8	Market cap. (B)	\$ 3.1
Avg. daily vol. (M)	0.502	Inst. holdings	68%

Value of \$10,000 invested 5 years ago:\$ 8,385

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
IFF	-4.59	-8.99	49.36
S&P 500	10.69	-1.02	-11.82
S&P 500 Spclty. Chemical	-0.49	-2.16	4.46

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

IFF	42.04
S&P 500	-10.66
S&P 500 Spclty. Chemical	5.22

# Lucent Technologies Inc.

## **Sub-Industry:**

Telecommunications Equipment

**Summary:** LU, a former division of AT&T, is one of the world's leading developers and manufacturers of telecommunications equipment, software and products.

## ***Key Stock Statistics***

<b>S&amp;P EPS Est. 0</b>	NA	<b>Tang. Bk. Value/Share</b>	2.80
<b>P/E on S&amp;P Est. 0</b>	NA	<b>Beta</b>	1.97
<b>Dividend Rate/Share</b>	Nil	<b>Shareholders</b>	1,602,553
<b>Shs. outstg. (M)</b>	3414.0	<b>Market cap. (B)</b>	\$ 20.6
<b>Avg. daily vol. (M)</b>	20.519	<b>Inst. holdings</b>	33%

Value of \$10,000 invested 5 years ago:NA

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
LU	-10.17	-50.36	-52.97
S&P 500	10.69	-1.02	-11.82
S&P 500 Telecom Equip.	-4.39	-29.41	-63.07

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

LU	2.88
S&P 500	-10.66
S&P 500 Telecom Equip.	-35.78

## MPS Group, Inc.

### **Sub-Industry:**

Employment Services

**Summary:** MPS, formerly Modis Professional Services, is an international provider of professional business services, including consulting, outsourcing, training and HR solutions.

### ***Key Stock Statistics***

Dividend Rate/Share	Nil	Shareholders	851
Shs. outstg. (M)	98.2	Market cap. (B)	\$0.712
Avg. daily vol. (M)	0.355	Inst. holdings	74%
Tang. Bk. Value/Share	1.35		
Beta	1.54		

Value of \$10,000 invested 5 years ago:\$ 3,101

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
MPS	-19.49	-21.24	72.57
S&P 400 Midcap	16.09	10.23	-0.59
S&P Midcap Empl Serv	-0.57	0.67	-9.97

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

MPS	6.98
S&P 400 Midcap	-3.05
S&P Midcap Empl Serv	2.08

## Network Associates, Inc.

### **Sub-Industry:**

Systems Software

**Summary:** NET develops network security and management software products.

### ***Key Stock Statistics***

S&P EPS Est. 2002	0.43	Tang. Bk. Value/Share	1.33
P/E on S&P Est. 2002	62.1	Beta	1.64
Dividend Rate/Share	Nil	Shareholders	1,161
Shs. outstg. (M)	138.5	Market cap. (B)	\$ 3.7
Avg. daily vol. (M)	5.336	Inst. holdings	71%

Value of \$10,000 invested 5 years ago:\$ 6,742

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
NET	-2.50	-26.91	511.22
S&P Midcap 400	16.09	10.23	-0.59
S&P Midcap System Software	32.37	6.36	16.80

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

NET	322.68
S&P Midcap 400	-3.05
S&P Midcap System Software	53.80

# Newmont Mining Corporation

## **Sub-Industry:**

Gold

**Summary:** NEM is the world's second largest gold producer, with operations in Nevada, Peru, Uzbekistan and Indonesia.

## ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2002</b>	0.50	<b>Tang. Bk. Value/Share</b>	8.11
<b>P/E on S&amp;P Est. 2002</b>	50.0	<b>Beta</b>	0.56
<b>Dividend Rate/Share</b>	0.12	<b>Shareholders</b>	26,200
<b>Shs. outstg. (M)</b>	196.0	<b>Market cap. (B)</b>	\$ 4.9
<b>Avg. daily vol. (M)</b>	7.173	<b>Inst. holdings</b>	67%

Value of \$10,000 invested 5 years ago:\$ 6,549

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
NEM	-15.07	2.18	12.64
S&P 500	10.69	-1.02	-11.82
S&P 500 Gold	-13.14	-4.37	12.33

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

NEM	5.96
S&P 500	-10.66
S&P 500 Gold	12.96



# Novell, Inc.

## **Sub-Industry:**

Systems Software

**Summary:** NOVL is a leading vendor of directory-enabled networking software, with its NetWare product line and related offerings.

## ***Key Stock Statistics***

S&P EPS Est. 2002	0.08	Tang. Bk. Value/Share	2.98
P/E on S&P Est. 2002	53.9	Beta	2.20
Dividend Rate/Share	Nil	Shareholders	10,744
Shs. outstg. (M)	362.6	Market cap. (B)	\$ 1.6
Avg. daily vol. (M)	2.851	Inst. holdings	44%

Value of \$10,000 invested 5 years ago:\$ 3,629

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
NOVL	-13.48	-36.71	-11.99
S&P 500	10.69	-1.02	-11.82
S&P 500 Systems Software	20.85	-0.24	5.11

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

NOVL	-34.55
S&P 500	-10.66
S&P 500 Systems Software	-26.18

## Owens-Illinois, Inc.

### **Sub-Industry:**

Metal & Glass Containers

**Summary:** OI is a giant global maker of glass bottles and plastic containers.

### ***Key Stock Statistics***

S&P EPS Est. 2002	2.00	Tang. Bk. Value/Share	NM
P/E on S&P Est. 2002	6.0	Beta	1.90
S&P EPS Est. 2003	2.15	Shareholders	1,300
Dividend Rate/Share	Nil	Market cap. (B)	\$ 1.8
Shs. outstg. (M)	146.5	Inst. holdings	69%
Avg. daily vol. (M)	0.756		

Value of \$10,000 invested 5 years ago:\$ 4,948

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
OI	-15.17	-31.14	75.11
Russell 2000	7.63	6.53	2.61
Russell 2000 Mtrl & Proc	0.23	0.18	7.34

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

OI	114.84
Russell 2000	-7.57
Russell 2000 Mtrl & Proc	-2.83

# PG&E Corporation

## **Sub-Industry:**

Electric Utilities

**Summary:** PCG is the parent of Pacific Gas and Electric Co., which has filed for Chapter 11 reorganization, and PG&E National Energy Group.

## ***Key Stock Statistics***

S&P EPS Est. 2001	2.20	Tang. Bk. Value/Share	8.74
P/E on S&P Est. 2001	9.5	Beta	-0.14
S&P EPS Est. 2002	2.70	Shareholders	132,612
Dividend Rate/Share	Nil	Market cap. (B)	\$ 8.1
Shs. outstg. (M)	387.3	Inst. holdings	50%
Avg. daily vol. (M)	1.508		

Value of \$10,000 invested 5 years ago:\$ 11,126

## **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
PCG	1.94	-12.31	-3.78
S&P 500	10.69	-1.02	-11.82
S&P 500 Elec. Util.	4.56	-1.92	-19.48

## **Short-Term Returns (%) 6/30/01 - 12/31/01**

PCG	190.82
S&P 500	-10.66
S&P 500 Elec. Util.	-24.45

## PRIMEDIA Inc.

### **Sub-Industry:**

Publishing & Printing

**Summary:** PRM provides specialized information for highly targeted audiences, concentrating in the areas of specialty magazines, education and information.

### ***Key Stock Statistics***

Dividend Rate/Share	Nil	Shareholders	583
Shs. outstg. (M)	244.5	Market cap. (B)	\$0.562
Avg. daily vol. (M)	0.309	Inst. holdings	23%
Tang. Bk. Value/Share	NM		
Beta	2.01		

Value of \$10,000 invested 5 years ago:\$ 2,139

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
PRM	-16.54	-28.43	-63.36
Russell 1000	10.44	-0.72	-12.19
Russell 1000 Consumer Discretionary and Services	9.56	-1.84	4.96

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

PRM	-58.46
Russell 1000	-10.77
Russell 1000 Consumer Discretionary and Services	-10.30

## Saks Inc.

### **Sub-Industry:**

Department Stores

**Summary:** SKS was formed through the combination of Proffitt's Inc. and Saks Holdings, Inc.

### ***Key Stock Statistics***

S&P EPS Est. 2002	0.13	Tang. Bk. Value/Share	13.25
P/E on S&P Est. 2002	73.2	Beta	1.51
S&P EPS Est. 2003	0.36	Shareholders	2,600
Dividend Rate/Share	Nil	Market cap. (B)	\$ 1.3
Shs. outstg. (M)	141.9	Inst. holdings	51%
Avg. daily vol. (M)	0.328		

Value of \$10,000 invested 5 years ago:\$ 5,357

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
SKS	-12.71	-33.34	-6.57
S&P Midcap 400	16.09	10.23	-0.59
S&P Midcap Dept. Store IX	-0.39	-25.99	-9.83

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

SKS	-5.27
S&P Midcap 400	-3.05
S&P Midcap Dept. Store IX	-2.32

## 3Com Corporation

### **Sub-Industry:**

Networking Equipment

**Summary:** COMS networking company makes a range of products, including adapters, hubs and routers for Ethernet, Token Ring and high-speed networks.

### ***Key Stock Statistics***

S&P EPS Est. 2002	-0.68	Tang. Bk. Value/Share	7.28
P/E on S&P Est. 2002	NM	Beta	1.48
S&P EPS Est. 2003	-0.05	Shareholders	5,488
Dividend Rate/Share	Nil	Market cap. (B)	\$ 2.1
Shs. outstg. (M)	352.1	Inst. holdings	51%
Avg. daily vol. (M)	2.383		

Value of \$10,000 invested 5 years ago:NA

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
COMS	-16.18	-12.17	-24.82
S&P 400 Midcap	16.09	10.23	-0.59
S&P Midcap Networking Equip	-24.86	-40.65	-40.54

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

COMS	78.97
S&P 400 Midcap	-3.05
S&P Midcap Networking Equip	-18.51

## UAL Corp.

### **Sub-Industry:**

Airlines

**Summary:** UAL's principal subsidiary, United Airlines, is the second largest U.S. airline. In May 2000, UAL offered to buy US Airways for \$11.6 billion, including assumption of debt.

### ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2001</b>	-25.00	<b>Tang. Bk. Value/Share</b>	54.97
<b>P/E on S&amp;P Est. 2001</b>	NM	<b>Beta</b>	1.45
<b>S&amp;P EPS Est. 2002</b>	-15.00	<b>Shareholders</b>	23,542
<b>Dividend Rate/Share</b>	Nil	<b>Market cap. (B)</b>	\$0.670
<b>Shs. outstg. (M)</b>	54.5	<b>Inst. holdings</b>	64%
<b>Avg. daily vol. (M)</b>	2.010		

Value of \$10,000 invested 5 years ago:\$ 2,173

### **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
UAL	-25.83	-38.27	-64.50
Russell 1000	10.44	-0.72	-12.19
Russell 1000 Auto & Trns	8.70	-0.10	-2.35

### **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

UAL	-84.82
Russell 1000	-10.77
Russell 1000 Auto & Trns	-21.70

## U.S. Industries, Inc.

### **Industry:**

Manufacturing (Diversified)

**Summary:** USI, formerly wholly owned by Hanson PLC, has operations in several areas, including plumbing, lighting and hardware.

### ***Key Stock Statistics***

S&P EPS Est. 2002	NA	Tang. Bk. Value/Share	2.12
P/E on S&P Est. 2002	NA	Beta	0.99
Dividend Rate/Share	Nil	Shareholders	20,818
Shs. outstg. (M)	74.3	Market cap. (B)	\$0.155
Avg. daily vol. (M)	0.192	Inst. holdings	85%

Value of \$10,000 invested 5 years ago:\$ 1,377

### **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
USI	-34.88	-47.56	-67.80
Russell 2000	7.63	6.53	2.61
Russell 2000 Other	-1.10	-5.44	-7.67

### **Short-Term Returns (%) 6/30/01 - 12/31/01**

USI	-60.51
Russell 2000	-7.57
Russell 2000 Other	-17.35



# WorldCom, Inc.-WorldCom Group

## **Sub-Industry:**

Integrated Telecommunication Services

**Summary:** WCOM is the tracking stock for the global communications business of WorldCom, Inc., which provides voice, data, Internet and international services.

## ***Key Stock Statistics***

<b>S&amp;P EPS Est. 2001</b>	NA	<b>Tang. Bk. Value/Share</b>	NM
<b>P/E on S&amp;P Est. 2001</b>	NA	<b>Beta</b>	1.57
<b>S&amp;P EPS Est. 2002</b>	0.79	<b>Shareholders</b>	65,000
<b>Dividend Rate/Share</b>	Nil	<b>Market cap. (B)</b>	\$ 24.1
<b>Shs. outstg. (M)</b>	2949.4	<b>Inst. holdings</b>	55%
<b>Avg. daily vol. (M)</b>	71.265		

Value of \$10,000 invested 5 years ago:NA

## **Average Annual Total Returns (%)** ***As of 12/31/01***

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
WCOM	-3.35	-32.57	4.15
S&P 500	10.69	-1.02	-11.82
S&P 500 Integrated Telecom	4.04	-15.61	-11.00

## **Short-Term Returns (%)** ***6/30/01 - 12/31/01***

WCOM	-1.66
S&P 500	-10.66
S&P 500 Integrated Telecom	-16.53

# Xerox Corporation

## **Sub-Industry:**

Office Electronics

**Summary:** XRX serves the document processing market worldwide, offering a complete line of copiers, electronic printers and other office and computer equipment.

## ***Key Stock Statistics***

S&P EPS Est. 2002	0.25	Tang. Bk. Value/Share	2.97
P/E on S&P Est. 2002	42.5	Beta	1.58
Dividend Rate/Share	Nil	Shareholders	59,874
Shs. outstg. (M)	720.0	Market cap. (B)	\$ 7.7
Avg. daily vol. (M)	5.875	Inst. holdings	63%

Value of \$10,000 invested 5 years ago:\$ 4,158

## **Average Annual Total Returns (%) As of 12/31/01**

	<u>5-Year</u>	<u>3-Year</u>	<u>1-Year</u>
XRX	-15.30	-42.67	126.15
S&P 500	10.69	-1.02	-11.82
S&P 500 Office Elecs	-24.16	-47.58	78.10

## **Short-Term Returns (%) 6/30/01 - 12/31/01**

XRX	18.28
S&P 500	-10.66
S&P 500 Office Elecs	18.31



T-133

**Written Statement  
for the  
House Education and Workforce Committee  
Subcommittee on Employer-Employee Relations**

**Hearing on  
“Enron and Beyond: Enhancing Worker Retirement Security”  
Wednesday, February 13, 2002**

**The Role of Company Stock in 401(k) Plans<sup>1</sup>**

**by**

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Philadelphia, PA**

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A complete version of this testimony in .pdf format, with all tables and charts, is available at [www.ebri.org](http://www.ebri.org)

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# 1 Introduction

Chairman Johnson, members of the subcommittee. I am Jack VanDerhei, a faculty member in the Risk, Insurance and Healthcare Management Department, Fox School of Business and Management, Temple University, and research director of the Employee Benefit Research Institute Fellows Program.

## 1.1 Background

Although the topic of company stock investment in 401(k) plans has recently been the focus of considerable interest, the concept of preferred status for employee ownership has been part of the U.S. tax code for more than 80 years.<sup>2</sup> When the Employee Retirement Income Security Act (ERISA) was passed in 1974, it required fiduciaries to diversify plan investments for defined benefit plans and some types of defined contribution plans. However, ERISA includes an exception for "eligible individual account plans" that invest in "qualifying employer securities."<sup>3</sup> An Employee Stock Ownership Plan (ESOP) normally qualifies for this exception, as do profit-sharing plans.<sup>4</sup>

Profit-sharing plans with cash or deferred arrangements (more commonly referred to as 401(k) plans) grew in number from virtually no plans in 1983<sup>5</sup> to a point where by 1997 (the most recent year for which government data are currently available) they accounted for 37% of qualified private retirement plans, 48% of active employees, and 65% of new contributions.<sup>6</sup>

The concept of legislating diversification for qualified retirement plan investments in company stock was first applied to ESOPs via a provision enacted as part of the Tax Reform Act of 1986.<sup>7</sup> Employees who are at least age 55 and who have completed at least 10 years of participation must be given the opportunity to diversify their investments by transferring from the employer stock fund to one or more of three other investment funds.<sup>8</sup> The right to diversify need be granted only for a 90-day window period following the close of the plan year in which the employee first becomes eligible to diversify and following the close of each of the next five plan years. This right is limited to shares acquired after 1986<sup>9</sup> and is further limited to 25% of such shares until the last window period, when up to 50% of such shares may be eligible for diversification.

The Taxpayer Relief Act of 1997 applied a limit on mandatory investment of 401(k) contributions in employer stock. This was a more modest version of a proposal by Sen. Barbara Boxer (D-CA) to impose a separate limitation of 10% of plan assets on the mandatory investment of 401(k) contributions in qualifying employer stock and real property.<sup>10</sup>

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expanded the dividend deduction for ESOPs to include dividends paid on qualifying employer securities held by an ESOP that, at the election of participants or beneficiaries, are: 1) payable directly in cash; 2) paid to the plan and distributed in cash no later than 90 days after the close of the plan year in which the dividends are paid to the plan; or 3) paid to the plan and reinvested in qualifying employer securities.<sup>11</sup> A 401(k) plan with a company stock fund that regularly pays dividends may consider designating a portion of the plan that includes the company stock fund to be an ESOP in order to take advantage of this deduction.<sup>12</sup>

At Enron, 57.73% of 401(k) plan assets were invested in company stock, which fell in value by 98.8% during 2001.<sup>13</sup> The decrease in share price and eventual bankruptcy filing of Enron resulted in huge financial losses for many of its 401(k) participants. This has prompted several lawsuits as well as congressional and agency investigations into the relative benefits and limitations of the current practice. In addition, the practice of imposing "blackout" periods when the 401(k) sponsor changes administrators has recently been called into question in light of the Enron situation.<sup>14</sup>

Certainly, the Enron situation has caused the retirement income policy community to focus increased attention to the desirability of current law and practices regarding company stock in 401(k) plans, resulting in much debate. Presumably, any recommendations to modify current pension law would attempt to strike a balance between protecting employees and not deterring employers from offering employer matches to 401(k) plans. Some have argued that if Congress were to regulate 401(k) plans too heavily, plan sponsors might choose to decrease employer contributions or not offer them at all. Previous research<sup>15</sup> has shown

that the availability and level of a company match is a primary impetus for at least some employees to make contributions to their 401(k) account. Others have argued that individuals should have the right to invest their money as they see fit.

## **1.2 Objectives Of The Testimony**

My testimony today will focus on “The Role of Company Stock in 401(k) Plans,” drawing on the extensive research conducted by the Employee Benefit Research Institute and on the EBRI/ICI 401(k) database. Portions of this testimony borrow heavily from a recent publication I co-authored with Sarah Holden of the Investment Company Institute, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2000,” *EBRI Issue Brief*, November 2001.

## **1.3 Sources Used In This Testimony**

In an attempt to put together the most complete picture possible for this testimony, three different sources were utilized:

- Administrative data from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project were used to assess the relative frequency of 401(k) plans offering company stock and the percentage of company stock held in participant portfolios.
- A survey of more than 3,000 members of the International Society of Certified Employee Benefit Specialists was used to collect data on the age restrictions for being able to cash in company stock, the prevalence of lockdowns, and the reaction of benefit professionals to various proposals for modifying the current system.
- Enhancements to the EBRI/ERF Retirement Income Projection Model were programmed to allow simulation of the potential financial impact of eliminating company stock from the investment menu of 401(k) plans.

The first two sources are detailed below and the simulation model is described in Section 7.2.

### **1.3.1 EBRI/ICI Participant-Directed Retirement Plan Data Collection Project**

Several EBRI and Investment Company Institute (ICI) members have provided records on active participants in 401(k) plans they administered from year-end 1996 through year-end 2000. These plan administrators include mutual fund companies, insurance companies, and consulting firms. The universe of plan administrators varies from year to year; thus, aggregate figures in this report generally should not be used to estimate time trends, unless this report indicates otherwise. Records were encrypted to conceal the identity of employers and employees but were coded so that both could be tracked over multiple years.

The 2000 EBRI/ICI database contains 35,367 401(k) plans with \$579.8 billion in assets and 11,827,256 participants. Most of the plans in the database are small, whether measured by the number of plan participants or by total plan assets. Indeed, 44% of the plans in the database have 25 or fewer participants, and 32% have 26–100 participants. In contrast, only 5% of the plans have more than 1,000 participants. Because most of the plans have a small number of participants, the asset size for many plans is modest. About 32% of the plans have assets of less than \$250,000, and another 33% have plan assets between \$250,001 and \$1,250,000. However, participants and assets are concentrated in large plans. For example, 76% of participants are in plans with more than 1,000 participants, and these same plans account for 84% of all plan assets.

### **1.3.2 ISCEBS Survey**

This survey was conducted in an attempt to provide a context to the current debate on company stock in a timely fashion, and it is not a statistically representative survey of the 401(k) industry; rather, this survey is a nonrandom polling of benefits professionals who are knowledgeable about the subject matter and able to respond to the survey quickly.

On January 15, 2002, a fax-back survey was sent to 3,346 members of the International Society of Certified Employee Benefit Specialists (ISCEBS).<sup>16</sup> Respondents were asked to respond by January 23rd and to answer the questions for the largest (in terms of participants) client they worked for (if they were a

consultant or service provider for 401(k) plans); otherwise, they were asked to answer for their employer's firm.

The survey instrument was divided into six parts. Part I asked for personal information relating to respondents' type of benefits expertise, age, and number of years in the benefits industry. Part II asked for information on the client/employer—including industry, number of employees, and whether it offered a defined benefit plan and/or a 401(k) plan. For those that did offer a 401(k) plan, additional information was collected about company stock investment options, whether employer contributions are required to be invested in company stock, average percentage of company stock in the employees' accounts, restrictions on selling the company stock, and blackout periods. Part III examined the employees' perceptions of the Enron situation. Part IV examined the respondents' views on the appropriate limits for investment in company stock and the government's role. Part V requested information on the respondents' perceptions on public policy issues related to company stock in 401(k) plans, and Part VI asked the respondents to speculate on likely reactions to various legal/legislative developments.

For purposes of this report, all respondents whose client/employer did not sponsor a 401(k) plan have been screened out, providing 375 usable responses after excluding surveys with missing information.

## **2 Size Of The 401(k) Universe**

As of 1997, the most recent year for which published government data is currently available, there were 265,251 401(k) type plans with 34 million active participants holding \$1.26 trillion in assets. Contributions for that year amounted to \$115 billion and \$93 billion in benefits were distributed.<sup>17</sup> By year-end 2000, it was estimated that approximately 42 million American workers held 401(k) plan accounts with a total of \$1.8 trillion in assets.<sup>18</sup>

## **3 Investment Options And The Manner In Which They Influence Employee Behavior**

Preliminary research analyzing 1.4 million participants drawn from the 2000 EBRI/ICI database suggests that participants are not influenced by the sheer number of investment options presented. On average, participants face 10.4 distinct options, but, on average, choose only 2.5.<sup>19</sup> In addition, the preliminary analysis found that 401(k) participants are not naïve—that is, when faced with “n” options they do not divide their assets among all “n.” Indeed, less than 1% of participants followed a “1/n” asset allocation strategy.

## **4 The Concentration Of Company Stock In 401(K) Plans**

### **4.1 Percentage Of 401(K) Plans And Participants With Company Stock**

Figure 1 shows that for the 1996 version<sup>20</sup> of the EBRI/ICI database, only 2.9% of the 401(k) plans included company stock (1.4% of the plans had company stock but no guaranteed investment contracts (GICs)<sup>21</sup> while 1.5% of the plans had both company stock and GICs). However, the plans that do have company stock are generally quite large and represented 42% (17% of the participants had company stock but no GICS while 25% had both options) of the 401(k) participants in the database that year (see Figure 2). In terms of account balances, plans with company stock account for 59% of the universe (23% of the assets were held in plans that had company stock but no GICS while 36% of the assets were held in plans that had both options, see Figure 3). The fact that plans with company stock had higher average account balances was no doubt partially due to the bull market preceding this time period but may also be a function of the plan's generosity parameters and average tenure of the employees.

### **4.2 Company Stock As A Percentage Of Total 401(K) Balances**

The overall percentage of 401(k) account balances in company stock has remained consistently in the 18–19% range from 1996–2000 (Figure 4). The age distribution for year-end 2000 is somewhat of an inverted “U” shape with younger and older participants holding slightly less than participants in their 40s (where the value peaks at 19.7%, see Figure 5)

Although often quoted, this figure is somewhat misleading given that a sizeable percentage of the 401(k) participants are in small plans that do not generally include company stock in the investment menu. The top panel in Figure 6 shows similar asset allocations as figure 5; however, the results are reported by plan size. The average asset allocation in company stock is:

- Less than 1% for plans with fewer than 500 participants,
- 3.8% for plans with 501–1,000 participants,
- 8.7% for plans with 1,001–5,000 participants, and
- 25.6% for plans with more than 5,000 participants.

The bottom two panels in Figure 6 provide a similar analysis; however, only plans that include company stock are analyzed. In this case, plans that offer company stock but not GICs have an average of 31.8% of the account balances invested in company stock while the figure decreases to 27.7% for plans that also include GICs. Once the influence of the investment menu is controlled for, the impact of plan size is less significant.

The bottom two panels in Figure 7 illustrate the impact of salary on company stock allocation for the subset of the EBRI/ICI database for which we have the requisite information. For both plans with and without GICs, there appears to be an inverse relationship between the level of salary and the percentage of 401(k) balance invested in company stock, although the relationship is much less significant in the former case. The extent to which this is due to non-participant-directed matching contributions making up a larger percentage of annual contributions for lower-paid individuals awaits further investigation.<sup>22</sup>

#### **4.3 Distribution Of Company Stock Allocations**

Several legislative proposals have called for an absolute upper limit on the percentage of company stock that an employee will be allowed to hold in his or her 401(k) account. Figure 8 provides the year-end 2000 company stock allocation for the EBRI/ICI universe of plans offering company stock. A total of 48% of the 401(k) participants under age 40 in these plans have more than 20% of their account balances invested in company stock. The percentage decreases to 47% for participants in their 40's, 45% for those in their 50's and drops to 41% for participants in their 60's.

## **5 Employee Reaction When Employers Mandate That Matching Contributions Be Invested In Company Stock**

Typically, in a 401(k) plan, an employee contributes a portion of his or her salary to a plan account and determines how the assets in the account are invested, choosing among investment options made available by the plan sponsor (employer). In many plans, the employer also makes a contribution to the participant's account, generally matching a portion of the employee's contribution. Some employers require that the employer contribution be invested in company stock rather than as directed by the participant.<sup>23</sup> Participants in these plans tend to invest a higher percentage of their self-directed balances in company stock than participants in plans without an employer-directed contribution. Company stock represents 33% of the participant-directed account balances in plans with employer-directed contributions (Figure 9, middle panel),<sup>24</sup> compared with 22% of account balances in plans offering company stock as an investment option but not requiring that employer contributions be invested in company stock (Figure 9, lower panel).

When total account balances are considered, the overall exposure to equity securities through company stock and pooled investments is significantly higher for participants in plans with employer-directed contributions. For example, investments in company stock, equity funds, and the equity portion of balanced funds represent 82% of the total account balances for participants in plans with employer-directed contributions, compared with 74% of the total account balances for participants in plans without employer-directed contributions. This higher allocation to equity securities holds across all age groups.

## **6 Evidence From The ISCEBS Survey Results**

Although the survey collected information on several aspects of company stock in 401(k) plans,<sup>25</sup> the items that appeared to be most pertinent to this hearing dealt with restrictions on sale of company stock

from employer contributions, blackout periods, and the ability of independent financial advice to mitigate the perceived problems resulting from employees investing voluntarily in company stock.

### **6.1 *Employer Contributions: Investment in Company Stock and Restrictions on Sale***

- 43% of those having a company stock investment option in a 401(k) plan reported that employer contributions were required to be invested in company stock.
- Among those plans that have a company stock option, large plans are more likely to require employer contributions to be invested in company stock: 49% of large plans vs. 38% of small plans.
- Of the 401(k) plans where employer contributions were required to be invested in company stock:
  - 13% reported no restrictions existed for selling the company stock.
  - 27% reported that they were restricted throughout a participant's investment in the plan.
  - 60% reported that they were restricted until a specified age and/or service requirement is met.

### **6.2 *Blackout Periods***

- 74% of the respondents' plans have undergone a blackout.
- Of those that have undergone a blackout, the distribution of the blackout period follows:
  - No delay/overnight/over weekend, 3%.
  - Between one day and two weeks, 27%.
  - Between two weeks and one month, 39%.
  - Between one month and two months, 26%.
  - More than two months, 5%.
- Blackout periods appear to be somewhat shorter for large plans than for small plans.
- The duration of the blackout period appears to be invariant to whether or not there is a company stock option; however, the duration does appear to be slightly longer when employer contributions are required to be invested in company stock.

When asked if they thought it was fair to impose a blackout period on participants in cases when there was *no* company stock:

- 10% said yes.
- 9% said no.
- 79% thought it was a necessary by-product of the conversion.
- 2% had no opinion.

When asked the same question but when there *was* company stock:

- 7% said yes.
- 16% said no.
- 72% thought it was a necessary by-product of the conversion.
- 1% had no opinion.

### **6.3 *Would Independent Financial Advice Solve The Perceived Problems Resulting From Employees Investing In Company Stock?***

The majority of respondents (58%) agreed that problems resulting from employees investing their own contributions in company stock would be mitigated if employers were allowed to provide independent financial advice to their employees. Only 27% of the respondents disagreed with this statement (15% were neutral).

## **7 What Would Happen To Employees If Company Stock Were Not Permitted In 401(K) Plans?**

Well before the plight of Enron 401(k) participants had made the headlines, personal finance and investment advisors had long touted the benefits of diversification.<sup>26</sup> While the trade-off of a diversified portfolio of equities for an individual stock may be of limited advantage for employees, what many of the commentators in this field have disregarded is the potentially beneficial attendant shift in asset allocation



resulting from the inclusion and/or mandate of company stock, especially for young employees that otherwise exhibit extremely risk-averse behavior in the determination of equity concentration for their 401(k) portfolio.

Figure 10 illustrates a distribution of expected annual returns for a diversified equity portfolio (the S&P 500 index is used in this example) vs. what would be expected from an individual stock. The computations assume a long-term average return of 11% for both a diversified portfolio and an individual stock but a standard deviation of 19.6% for the former compared to 65% for the latter.<sup>27</sup> The lines intersect at the 50<sup>th</sup> percentile and, as expected, both have an average (mean and median) return of 11%. However, the potential outcomes – both good and bad – are much more extreme for the individual stock at the ends of the distribution. For example the inter-quartile range representing the “middle” one-half of the expected outcomes ranges from a loss of –2.2% to a gain of 24.2% for the S&P 500, while the same statistic ranges from a loss of –32.8% to a gain of 54.8% for an individual stock.

In essence, Figure 10 demonstrates the trade-offs when one looks only at diversified equity vs. company stock. Both investment alternatives provide the employee with the same average (in the long run), but it is obviously much more risky to have the latter. However, it may be argued that this focus is too narrow from a public policy perspective, even if limited solely to employee behavior.<sup>28</sup> Perhaps a more accurate way to analyze potential constraints on the use of company stock (at least the employer matching contributions) in 401(k) plans is to perform a financial cost/benefit analysis of the first order effects. Standard finance theory can solve for whether the additional return is worth the additional risk (based on individual-specific risk parameters) but that is not the point here. What I am attempting to determine is whether this trade-off **does** exist, and it is not simply a matter—as some have suggested—of more risk for no additional return.

What I will attempt to demonstrate in the following section is that although forcing the employer match into company stock obviously increases the standard deviation of expected results relative to a diversified equity portfolio, for each of the last five years the EBRI/ICI data base has demonstrated that, left to their own choices, the employee’s asset allocation would have lower concentrations in equity (defined as diversified equity plus company stock plus 60% of balanced funds) and therefore have a lower expected rate of return.

I start with some stylized examples of how the inclusion of company stock may work to the benefit of employees in general and expand the analysis by simulating the expected change in 401(k) account balances if company stock were prospectively eliminated from 401(k) plans for birth cohorts from 1936–1970. These results may be useful in analyzing previous charges that company stock should not be used in tax subsidized accounts.

### **7.1 Stylized Examples**

Figure 11 analyzes the expected returns for the average 401(k) portfolios (not just the equity portion) held by participants in their 20s. It uses the same mean and standard deviation assumptions as Figure 10;<sup>29</sup> however, it incorporates the asset allocation differentials for plans with and without company stock. As expected, plans with company stock have a wider distribution of results at any probability level than those without company stock. The differential asset allocation has resulted in a 36 basis point advantage to these plans even though the same rate of return is assumed for diversified equities and individual stocks. Figure 12 provides a similar stylized example for 401(k) participants in their 60s. In this case, the expected annual advantage of participating in a 401(k) plan with company stock decreases to 34 basis points.

While these stylized examples may be useful pedagogical devices, they prove to be virtually worthless in attempting to assess the financial impact of eliminating company stock from 401(k) plans. Although a participant may currently be in a 401(k) plan that includes company stock, it is highly likely (particularly for a young employee) that he or she will leave that employer prior to retirement. Assuming this individual has one or more subsequent employers, the overall financial impact of a modification to the existing laws will depend on whether the future employers offer a 401(k) plan and, if so, whether the employee chooses to participate, the contribution rate for both the employer and employee, and the investment menu offered the employee. Moreover, a critical assessment of the employee’s future retirement income must determine

whether or not the 401(k) balances stay with the current employer on job change, are rolled over to a new employer and/or IRA,<sup>30</sup> or are consumed prematurely.

## **7.2 Description Of Simulation Methodology**

In an attempt to assess the first-order impact of eliminating company stock in 401(k) plans, I programmed a new subroutine to the EBRI/ERF RIPM to simulate the financial impact on 401(k) account balance.

The EBRI-ERF model is based on a four-year time series of administrative data from more than 10 million 401(k) participants and more than 30,000 plans, as well as a time series of several hundred plan descriptions used to provide a sample of the various defined benefit and defined contribution plan provisions applicable to plan participants. In addition, several public surveys based on participants' self-reported answers (the Survey of Consumer Finances [SCF], the Current Population Survey [CPS], and the Survey of Income and Program Participation [SIPP]) were used to model participation, wages, and initial account balance information. This information is combined with U.S. Department of Labor Form 5500 data to model participation and initial account balance information for all defined contribution participants, as well as contribution behavior for non-401(k) defined contribution plans. Asset allocation information is based on previously published results of the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project and employee contribution behavior to 401(k) plans is provided by an expansion of a method based on both employee demographic information and plan matching provisions. A combination of Form 5500 data and self-reported results was also used to estimate defined benefit participation models; however, it appears information in the latter is rather unreliable with respect to estimating current and/or future accrued benefits. Therefore, a database of defined benefit plan provisions for salary-related plans was constructed to estimate benefit accruals. Combinations of self-reported results were used to initialize IRA accounts. Future IRA contributions were modeled from SIPP data, while future rollover activity was assumed to flow from future separation from employment in those cases in which the employee was participating in a defined contribution plan sponsored by the previous employer. Industry data are used to estimate the relative likelihood that the balances are rolled over to an IRA, left with the previous employer, transferred to a new employer, or used for other purposes.

A stochastic job duration algorithm was estimated and applied to each individual in the EBRI-ERF model to predict the number of jobs held and age at each job change. Each time the individual starts a new job, the EBRI-ERF model simulates whether or not it will result in coverage in a defined benefit plan, a defined contribution plan, both, or neither. If coverage in a defined benefit plan is predicted, time series information from the Bureau of Labor Statistics (BLS) is used to predict what type of plan it will be.<sup>31</sup> While the BLS information provides significant detail on the generosity parameters for defined benefit plans, preliminary analysis indicated that several of these provisions were likely to be highly correlated (especially for integrated plans). Therefore, a time series of several hundred defined benefit plans per year was coded to allow for assignment to the individuals in the EBRI-ERF model.<sup>32</sup> Although the Tax Reform Act of 1986 at least partially modified the constraints on integrated pension plans by adding Sec. 401(l) to the Internal Revenue Code, it would appear that a significant percentage of defined benefit sponsors have retained Primary Insurance Amount (PIA)-offset plans. In order to estimate the offset provided under the plan formulae, the EBRI-ERF model computes the employee's Average Indexed Monthly Earnings, Primary Insurance Amount, and covered compensation values for the birth cohort.

Previous studies on the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project have analyzed the average account balances for 401(k) participants by age and tenure. Unfortunately, the EBRI/ICI database does not currently provide detailed information on other types of defined contribution plans nor does it allow analysis of defined contribution balances that may have been left with previous employers. The EBRI-ERF model uses self-reported responses for whether an individual has a defined contribution balance to estimate a participation model, and the reported value is modeled as a function of age and tenure.

Previous research on employee contribution behavior to 401(k) plans has often been limited by lack of adequate data. This is primarily due to the types of matching formulae utilized by sponsors. While these formulae are often complicated due to the desire of sponsors to provide sufficient incentives to non-

highly compensated employees to contribute in order to comply with technical nondiscrimination testing, this complexity makes it virtually impossible to appropriately analyze the employee's behavior if one is forced to observe either aggregate plan data or use information on the plan contribution formulae provided by the participant. With the exception of studies based on administrative data, employee contribution behavior is typically assumed to be a function of employee demographic data and perhaps an employee's estimate of the employer matching rate or a proxy based on Form 5500 data. However, a significant percentage of the employee contribution behavior appears to be determined by plan-specific provisions. For example, the percentage of employees contributing up to either the maximum amount of compensation matched, the 402(g) limit, or the plan maximum was studied by EBRI in 1996. It would appear that a significant portion of the employee contribution is explained by these "corner points," which would not be picked up in the data described above. Recently EBRI provided preliminary findings<sup>33</sup> introducing new methodology to expand the usefulness of modeling these data, as well as a better understanding of contribution behavior by 401(k) plan participants. We utilize a sequential response regression model to allow for the differing incentives faced by the employees at various levels of contributions. Based on findings from 137 distinct matching formulae, we have estimated a behavioral model that is able to control for the tendency of employers to substitute between the amount they match per dollar of employee contribution and the maximum percentage of compensation they are willing to match. We decompose employee contribution behavior into a series of 1% of compensation intervals and therefore are able to model not only the marginal incentives to contribute at that interval but also the "option value" that making the contribution at that interval provides for the employee. Contribution behavior for defined contribution plans other than 401(k) plans is estimated from self-reported responses to public survey data.

Thus, the model already incorporates all the requisite assumptions to perform this analysis with one critical exception. There appears to be no information available with respect to the probability that an employee leaving a job offering a 401(k) plan with company stock will take a job in which the new employer also offers a 401(k) plan with company stock, etc. Therefore, I have run the model assuming first that there is complete correlation with respect to this phenomenon (e.g., once an employee is in a 401(k) plan with company stock, any subsequent 401(k) participation will also be in a plan with company stock). This is probably not a realistic assumption and will provide the largest estimate of lost 401(k) wealth. The second set of runs assumes complete independence with respect to the probability of temporally contiguous 401(k) plans having company stock. It is likely that this assumption understates the true magnitude of the losses and therefore should be used as a minimum estimate.

### **7.3 Simulation Results**

The simulation was performed for birth cohorts between 1936 and 1970 and the results indicate the overall gain or loss from (prospective) retention of company stock in 401(k) plans (as opposed to company stock being entirely eliminated immediately). The estimated gain of retaining company stock is 4.0% of 401(k) balances assuming complete independence with respect to the probability of company stock in a subsequent plan and 7.8% assuming perfect correlation.

Figure 13 provides the results of the simulation by gender and pre-retirement income, assuming complete independence. Pre-retirement income was categorized as either high or low by simulating the income in the year prior to retirement and comparing it with the median income for participants in the same birth cohort. Males would gain more than females from retention of company stock for both levels of relative salary. Participants in the lower relative salary levels would stand to gain more than their higher paid counterparts for both genders.

Figure 13  
**Average Gain From Retention Of Company Stock As A Percentage Of 401(k) Balance,  
 By Gender And Relative Pre-Retirement Salary (Assuming Complete Independence)**

Pre-retirement salary relative to median for age cohort	Gender	
	Male	Female
Low	5.2%	3.5%
High	5.0%	1.6%

The distributional results for this population are shown in Figure 14. For example, at least 25 pct of the sample is expected to gain 5.1% or more if they were allowed to have company stock going forward, while at least 25% of the sample is expected to lose 10.8% or more if company stock continues to be permitted.

Figure 14  
**Distribution Of Gain From Retention Of Company Stock In 401(K) Plans As A Percentage Of  
 Simulated 401(K) Balances Without Company Stock, Assuming Complete Independence**

Percentile	Percentage gain
99%	75.8%
95%	32.6%
90%	18.7%
75%	5.1%
50%	-0.5%
25%	-10.8%
10%	-26.0%
5%	-35.7%
1%	-56.5%

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## Endnotes

<sup>1</sup> Portions of this testimony borrow heavily from Sarah Holden and Jack VanDerhei, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2000," *EBRI Issue Brief* n. 239, November 2001.

<sup>2</sup> The first stock bonus plans were granted tax-exempt status under the Revenue Act of 1921. See Robert W. Smiley, Jr. and Gregory K. Brown, "Employee Stock Ownership Plans (ESOPs)," *Handbook of Employee Benefits*, 5th Ed., Jerry S. Rosenbloom, ed. (Homewood, Illinois: Dow Jones-Irwin, 2001).

<sup>3</sup> ERISA Sec. 407(b)(1).

<sup>4</sup> This is important because an ESOP is to be "primarily invested" in qualifying employer securities. See "Employee Stock Ownership Plans (Part II)," *Journal of Pension Planning and Compliance* (Winter 2000); John L. Utz; pages 1–34.

<sup>5</sup> Although cash or deferred arrangements have existed since the 1950's, the Revenue Act of 1978 enacted permanent provisions governing them by adding Sec. 401(k) to the Internal Revenue Code. While this was effective for plan years beginning after 1979, the proposed regulations were not released until November 1981. See Jack VanDerhei and Kelly Olsen, "Section 401(k) Plans (Cash or Deferred Arrangements) and Thrift Plans," *Handbook of Employee Benefits*, 5th Ed., Jerry S. Rosenbloom, ed. (Homewood, Illinois: Dow Jones-Irwin, 2001).

<sup>6</sup> U.S. Department of Labor, Pension and Welfare Benefits Administration. "Abstract of 1997 Form 5500 Annual Reports," *Private Pension Plan Bulletin No. 10* (Winter 2001). For a review of the academic literature analyzing these trends, see William Gale, Leslie Papke, and Jack VanDerhei, "Understanding the Shift Toward Defined Contribution Plans," in *A Framework For Evaluating Pension Reform* (Brookings Institution/TIAA-CREF/Stanford University), forthcoming. ([www.brook.edu/es/erisa/99papers/erisa2.pdf](http://www.brook.edu/es/erisa/99papers/erisa2.pdf))

<sup>7</sup> It should be noted that less than 5% of all ESOPs are in public companies. For an explanation of the challenges that stricter diversification rules may present to private company ESOPs, see Corey Rosen, "Should ESOPs Be Subject to Stricter Diversification Rules?" ([www.nceo.org/library/boxer\\_corzine\\_bill.html](http://www.nceo.org/library/boxer_corzine_bill.html))

<sup>8</sup> Alternatively, amounts subject to the right of diversification may be distributed from the plan. See Everett T. Allen, Jr., Joseph J. Melone, Jerry S. Rosenbloom and Jack L. VanDerhei, *Pension Planning: Pensions, Profit Sharing, and Other Deferred Compensation Plans* (8th ed), Homewood, Illinois: Richard D. Irwin, Inc., 1997.

<sup>9</sup> As a result, the impact of this change was *de minimis* during the significant market decline in the fall of 1997. See Jack VanDerhei, "The Impact of the October 1987 Stock Market Decline on Pension Plans," written testimony for U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Oversight, July 1988.

<sup>10</sup> The final version exempts from the 10% limits: (1) *de minimis* (i.e., as much as 1% of pay) mandatory investment provisions, (2) plan designs under which the Sec. 401(k) deferrals (regardless of amount) are part of an ESOP, and (3) plans in which the total assets of all defined contribution plans of the employer are not more than 10% of the total defined benefit and defined contribution plan assets of the employer. The limit applies prospectively with respect to acquisitions of employer stock. The investment of matching or other employer contributions continues to be exempt from any limits. See Louis T. Mazawey, "1997 Tax Law Changes Affecting Retirement Plans," *Journal of Pension Planning and Compliance* (Winter 1998): 72–86. For more detail on the original proposal, see Ann L Combs, "Taking Stock of the Boxer Bill," *Financial Executive* (Jan./Feb. 1997): 18–20.

<sup>11</sup> Hewitt, *Special Report to Clients*, July 2001, "Impact of EGTRRA on Employer Plans." (<http://www.hewitt.com/hewitt/resource/wsr/2001/egtrra.pdf>)

<sup>12</sup> Watson Wyatt Worldwide, "Retirement Plan Provisions: What, When and How Much?" (Washington, DC: Watson Wyatt Worldwide, 2001).

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<sup>13</sup> “Enron Debacle Will Force Clean Up of Company Stock Use in DC Plans,” *IOMA’s DC Plan Investing*, Dec. 11, 2001, p. 1.

<sup>14</sup> Currently, there is no statutory or regulatory limit on the length of time during which participants can be blocked from reallocating assets or conducting other transactions in a 401(k) plan. See Patrick J. Purcell, “The Enron Bankruptcy and Employer Stock in Retirement Plans,” *CRS Report for Congress* (Jan. 22, 2002): 5.

<sup>15</sup> Jack VanDerhei and Craig Copeland, “A Behavioral Model for Predicting Employee Contributions to 401(k) Plans,” *North American Actuarial Journal* (First Quarter, 2001).

<sup>16</sup> To earn the professional CEBS designation, an individual must have passed 10 rigorous national examinations, including one course devoted entirely to defined contribution plans and another on investments. More information is available at [www.iscebs.org](http://www.iscebs.org)

<sup>17</sup> U.S. Department of Labor, Pension and Welfare Benefits Administration, “Abstract of 1997 Form 5500 Annual Reports,” *Private Pension Plan Bulletin No. 10* (Winter 2001).

<sup>18</sup> Holden and VanDerhei (November, 2001), p. 3.

<sup>19</sup> Sarah Holden and Jack VanDerhei, “The Impact of Employer-Selected Investment Options on 401(k) Plan Participants’ Asset Allocations: Preliminary Findings,” May 2001, working paper.

<sup>20</sup> Readers should be cautioned that while the EBRI/ICI database appears to be very representative of the estimated universe of 401(k) plans, there has currently been no attempt to develop extrapolation weights to match up these plans with those reported on the Form 5500. See Holden and VanDerhei (November 2001), p. 6 for more detail.

<sup>21</sup> Guaranteed investment contracts (GICs) are insurance company products that guarantee a specific rate of return on the invested capital over the life of the contract.

<sup>22</sup> For recent EBRI/ICI research on the contribution activity of 401(k) plan participants, see Holden and VanDerhei, “Contribution Behavior of 401(k) Plan Participants,” *EBRI Issue Brief* n. 238, October 2001.

<sup>23</sup> Source of contribution (employer versus employee) can be matched to fund information for a subset of the data providers in our sample. Of those plans in the 2000 EBRI/ICI database for which the appropriate data are available, less than 0.5% require employer contributions to be invested in company stock. However, most of the plans with this feature are large, covering 6% of participants and 10% of plan assets in the subset.

<sup>24</sup> For this group, the participant-directed portion of the account balances represents 65% of the total account balances.

<sup>25</sup> See Jack L. VanDerhei, “Company Stock in 401(k) Plans: Results of a Survey of ISCEBS Members,” January 2002, for the full survey results ([www.ebri.org](http://www.ebri.org)).

<sup>26</sup> See Scott Burns, “Examining Your Gift Horse,” *Dallas Morning News*, April 17, 2001, for an excellent example of the tradeoff of risk between the S&P 500 Index and an individual stock.

<sup>27</sup> Ibid. These values were taken from Feb. 28, 2001, data of Morningstar Principia and reported in Burns’ article.

<sup>28</sup> For example, some have suggested that if company stock is prohibited or limited, some employers may reduce (or even eliminate) employer matching contributions.

<sup>29</sup> I have arbitrarily assumed all nonequity investments earn an annual rate of return of 6%. The results are not particularly sensitive to this assumption as long as the equity premium remains positive.

<sup>30</sup> This will decrease the likelihood of the previous employer’s company stock being retained until retirement age.

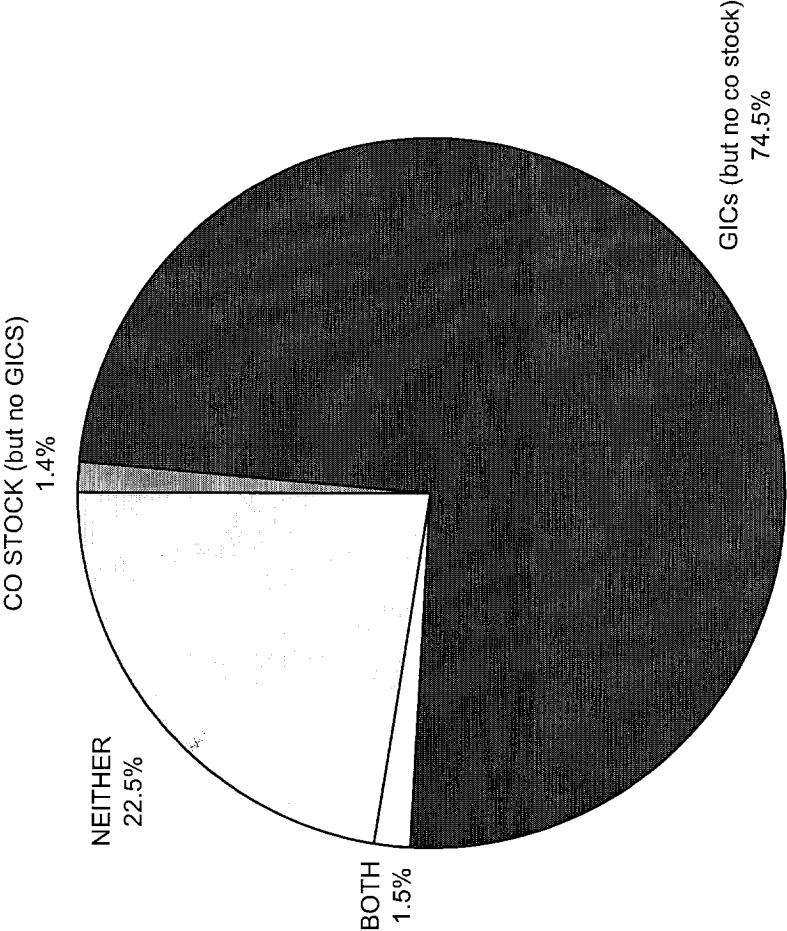
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<sup>31</sup> The model is currently programmed to allow the employee to participate in a nonintegrated career average plan; an integrated career average plan; a 5-year final average plan without integration; a 3-year final average plan without integration; a 5-year final average plan with covered compensation as the integration level; a 3 year final average plan with covered compensation as the integration level; a 5-year final average plan with a PIA offset; a 3-year final average plan with a PIA offset; a cash balance plan; or a flat benefit plan

<sup>32</sup> BLS information was utilized to code the distribution of generosity parameters for flat benefit plans.

<sup>33</sup> Jack VanDerhei and Craig Copeland, "A behavioral model for predicting employee contributions to 401(k) plans," *North American Actuarial Journal* (First Quarter, 2001).

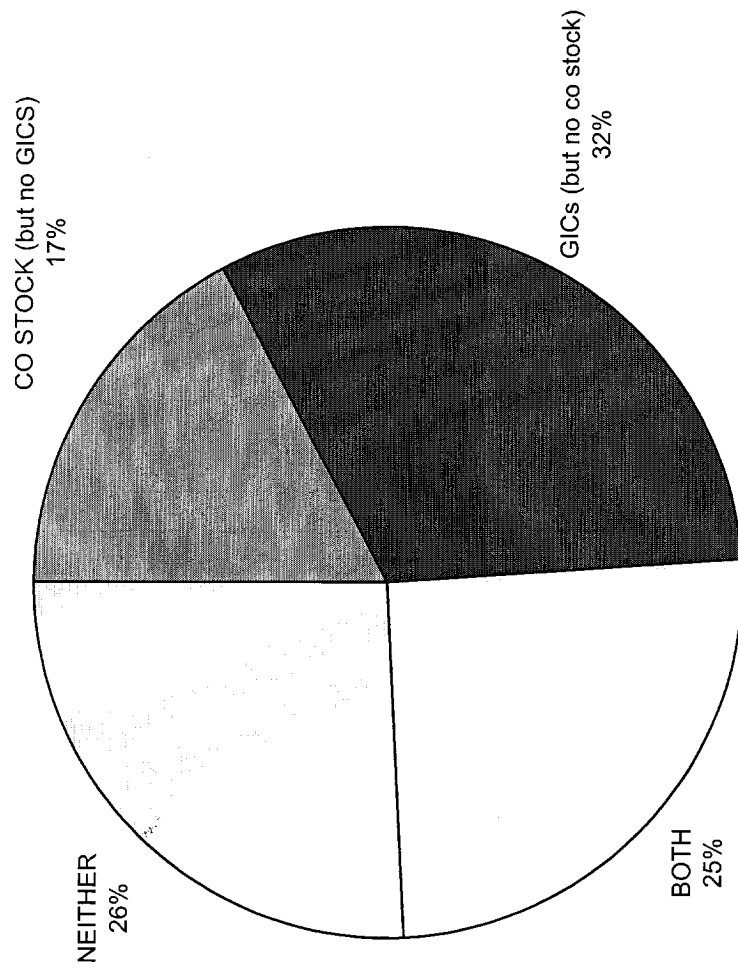
Figure 1: Percentage of plans by investment menu in the EBR/ICI data base, 1996



Source: Jack L. VanDerhei, "Participant Allocation Behavior in 401(k) Plans," 1999 ICI Retirement Plans Conference

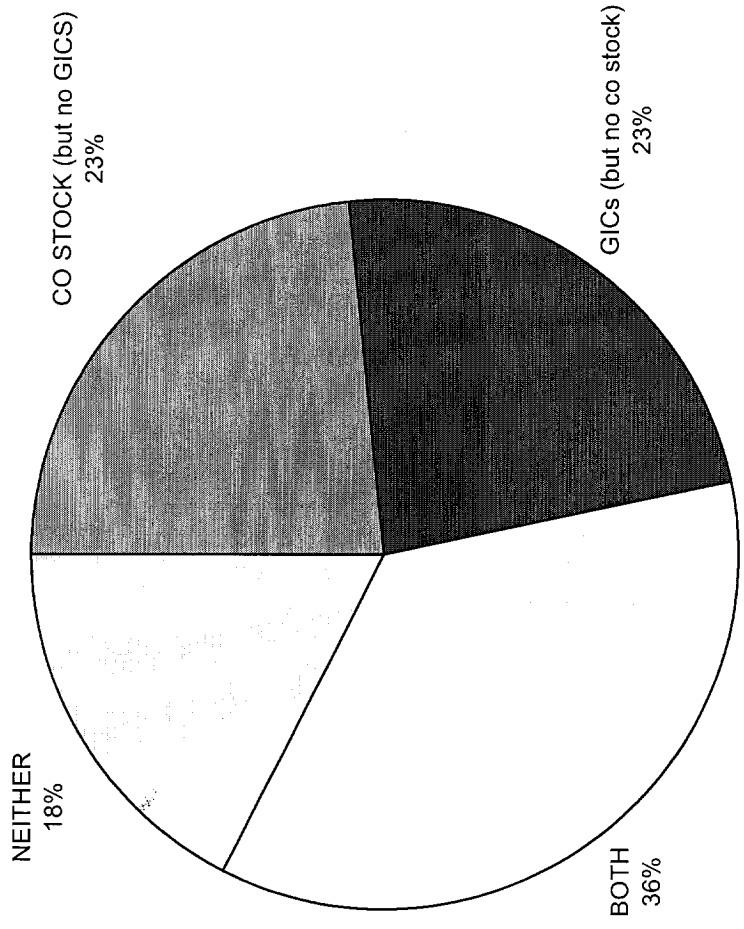


Figure 2: Percentage of participants by investment menu in the EBR/ICI data base, 1996



Source: Jack L. VanDerhei, "Participant Allocation Behavior in 401(k) Plans," 1999 ICI Retirement Plans Conference

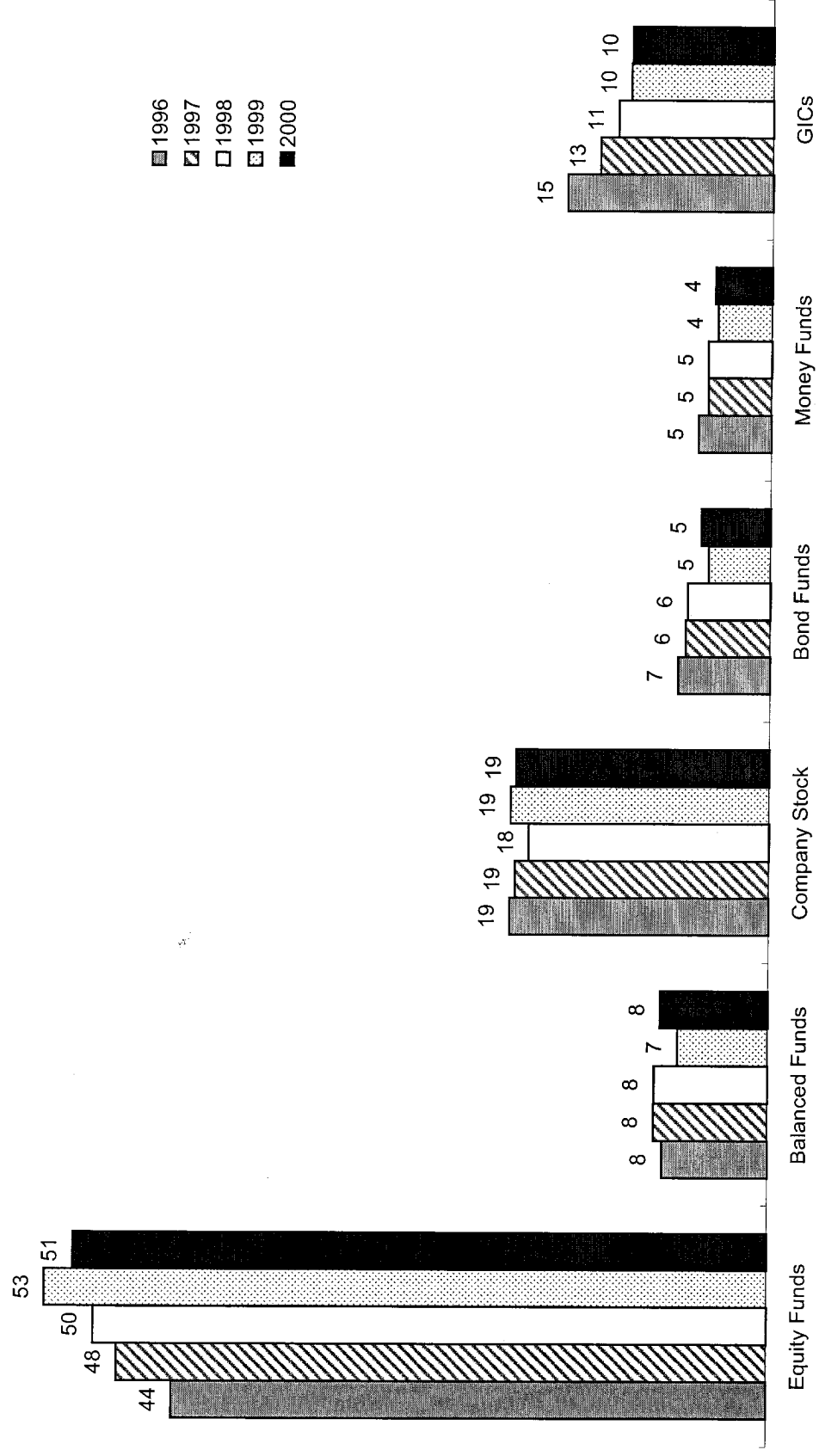
Figure 3: Percentage of plan assets by investment menu in the EBRI/ICI data base, 1996



Source: Jack L. VanDerhei, "Participant Allocation Behavior in 401(k) Plans," 1999 ICI Retirement Plans Conference

Figure 4

**Average Asset Allocation, 1996-2000**  
(percent of total assets)



Source: Tabulations from EBR/ICI Participant-Directed Retirement Plan Data Collection Project

Figure 5

**Average Asset Allocation by Age, 2000**  
(percent of account balances)

Age Cohort	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock	Other Stable Value Funds	Other	Unknown	Total
20s	61.4	8.6	4.3	4.3	4.0	15.4	0.5	0.7	0.5	100
30s	60.2	8.0	3.8	3.3	4.6	18.4	0.4	0.8	0.4	100
40s	54.8	8.0	4.2	3.8	7.5	19.7	0.6	1.0	0.4	100
50s	49.2	8.0	5.3	4.4	11.5	19.1	1.1	1.0	0.4	100
60s	39.8	8.0	7.7	5.4	19.3	16.3	2.2	0.9	0.4	100
All	51.3	8.0	5.1	4.2	10.4	18.6	1.0	0.9	0.4	100

Note: Components may not sum to 100 because of rounding.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

Figure 6

**Average Asset Allocation by Plan Size and Investment Options, 2000**

(percent of account balances)

Plan size by number of participants	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock
<b>ALL PLANS</b>						
1 to 100	56.7	20.0	6.7	6.2	7.6	0.1
101 to 500	63.5	13.1	7.5	6.2	6.2	0.8
501 to 1,000	62.1	11.1	7.6	6.2	6.0	3.8
1,001 to 5,000	57.4	9.9	5.7	5.8	10.0	8.7
> 5,000	47.0	6.0	4.4	3.3	11.4	25.6
All	51.3	8.0	5.1	4.2	10.4	18.6
<b>PLANS WITHOUT COMPANY STOCK OR GUARANTEED INVESTMENT CONTRACTS</b>						
1 to 100	72.4	9.0	8.9	7.9		
101 to 500	71.5	9.7	9.2	6.9		
501 to 1,000	69.7	9.2	10.3	7.1		
1,001 to 5,000	68.9	10.7	9.0	8.5		
> 5,000	71.2	10.6	7.2	6.8		
All	70.4	10.1	8.8	7.5		
<b>PLANS WITH GUARANTEED INVESTMENT CONTRACTS</b>						
1 to 100	44.4	28.8	5.1	4.9	13.6	
101 to 500	49.1	20.6	4.1	4.7	18.4	
501 to 1,000	54.4	17.4	3.4	3.8	18.3	
1,001 to 5,000	57.3	11.3	3.0	3.0	22.9	
> 5,000	63.2	9.1	3.1	3.0	19.2	
All	56.7	14.3	3.5	3.5	19.4	
<b>PLANS WITH COMPANY STOCK</b>						
1 to 100	47.1	7.6	6.0	11.7		27.4
101 to 500	59.2	8.6	8.5	8.7		14.5
501 to 1,000	52.6	6.5	6.6	9.2		22.5
1,001 to 5,000	50.8	7.5	6.8	7.6		24.9
> 5,000	42.9	5.4	8.2	5.4		33.6
All	44.6	5.8	7.9	5.8		31.8
<b>PLANS WITH COMPANY STOCK AND GUARANTEED INVESTMENT CONTRACTS</b>						
1 to 100	48.2	15.8	3.3	5.5	12.1	13.0
101 to 500	48.1	12.4	3.3	3.0	17.7	11.5
501 to 1,000	39.9	8.8	2.1	3.7	18.4	25.2
1,001 to 5,000	45.1	9.2	1.9	2.3	22.8	16.6
> 5,000	43.2	5.1	2.0	1.6	18.4	29.0
All	43.4	5.6	2.0	1.7	18.9	27.7

Note: Minor investment options are not shown; therefore, row percentages will not add to 100 percent.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

Figure 7

**Average Asset Allocation by Salary and Investment Options, 2000**  
(percent of account balances)

	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock
<b>SALARY</b>						
<b>PLANS WITHOUT COMPANY STOCK OR GUARANTEED INVESTMENT CONTRACTS</b>						
\$20,000 to \$40,000	64.5	9.8	11.7	7.1		
>\$40,000 to \$60,000	71.0	9.5	11.3	5.2		
>\$60,000 to \$80,000	74.6	8.5	10.2	4.7		
>\$80,000 to \$100,000	75.3	8.7	9.6	4.3		
>\$100,000	73.3	8.3	9.3	4.6		
All	70.4	10.1	8.8	7.5		
<b>PLANS WITH GUARANTEED INVESTMENT CONTRACTS</b>						
\$20,000 to \$40,000	47.7	21.7	3.7	4.6	20.2	
>\$40,000 to \$60,000	51.1	21.6	3.8	4.5	16.8	
>\$60,000 to \$80,000	55.0	19.4	3.4	4.1	15.7	
>\$80,000 to \$100,000	58.1	18.8	3.5	3.7	13.8	
>\$100,000	57.7	20.5	3.2	4.0	11.7	
All	56.7	14.3	3.5	3.5	19.4	
<b>PLANS WITH COMPANY STOCK</b>						
\$20,000 to \$40,000	38.0	7.0	5.5	6.4		41.3
>\$40,000 to \$60,000	37.8	11.2	4.0	6.9		33.7
>\$60,000 to \$80,000	39.9	12.3	3.1	5.3		29.3
>\$80,000 to \$100,000	42.6	12.9	3.5	4.7		25.9
>\$100,000	46.5	9.5	6.3	4.8		26.4
All	44.6	5.8	7.9	5.8		31.8
<b>PLANS WITH COMPANY STOCK AND GUARANTEED INVESTMENT CONTRACTS</b>						
\$20,000 to \$40,000	41.2	7.4	1.8	1.1	18.1	29.3
>\$40,000 to \$60,000	43.6	6.7	1.6	1.0	19.0	27.5
>\$60,000 to \$80,000	46.5	6.7	1.6	0.6	18.3	25.8
>\$80,000 to \$100,000	49.9	6.0	1.8	0.6	18.0	23.2
>\$100,000	47.1	5.5	1.8	0.6	17.8	26.5
All	43.4	5.6	2.0	1.7	18.9	27.7

Note: Minor investment options are not shown; therefore, row percentages will not add to 100 percent.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

**Figure 8: Asset Allocation Distribution of Participant Account Balances to Company Stock Among Participants in Plans Offering Company Stock by Age, 2000**  
(percent of participants in plans offering company stock)

	Zero	> 0% to 10%	> 10% to 20%	> 20% to 30%	> 30% to 40%	> 40% to 50%	> 50% to 60%	> 60% to 70%	> 70% to 80%	> 80% to 90%	> 90%
<b>Total</b>	34.5	11.2	8.1	7.4	6.1	5.2	4.5	3.2	2.5	2.0	15.3
<b>AGE COHORT</b>											
20s	39.2	6.1	6.7	7.9	6.9	5.7	4.9	3.2	2.4	1.7	15.2
30s	34.3	9.7	8.2	7.8	6.5	5.6	4.8	3.4	2.7	2.1	14.8
40s	33.0	11.8	8.4	7.4	6.2	5.4	4.6	3.4	2.7	2.1	15.0
50s	32.4	13.8	8.5	7.1	5.7	5.0	4.2	3.1	2.4	2.0	15.8
60s	37.5	14.1	7.6	5.9	4.6	3.9	3.3	2.6	2.1	1.8	16.6

Note: Row percentages may not add to 100 percent because of rounding.  
Source: Tabulations from EBR/ICI Participant-Directed Retirement Plan Data Collection Project

Figure 9

**Impact of Company Stock on Asset Allocation by Age, 2000**

(percent of account balances)

Age Cohort	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock
<b>PLANS WITH EMPLOYER-DIRECTED AND PARTICIPANT-DIRECTED BALANCES</b>						
Total Balances (Employer-Directed and Participant-Directed)						
20s	31.8	5.0	0.6	3.1	3.6	53.7
30s	27.9	4.7	0.6	1.8	4.9	58.4
40s	26.0	4.7	0.9	2.8	6.4	56.9
50s	26.2	5.5	1.4	3.6	10.1	50.9
60s	25.0	6.3	2.3	7.2	15.3	41.4
All	26.2	5.2	1.2	3.5	8.8	52.9
Participant-Directed Balances Only						
20s	40.8	6.4	0.8	3.6	4.3	41.3
30s	42.0	7.0	0.8	2.4	6.6	39.0
40s	40.7	7.1	1.5	4.0	9.0	34.9
50s	37.7	7.5	2.0	5.1	12.6	32.0
60s	32.4	7.9	3.1	9.2	18.7	26.0
All	38.5	7.4	1.8	4.9	11.5	33.2
<b>PLANS WITH COMPANY STOCK INVESTMENT OPTION BUT NO EMPLOYER-DIRECTED CONTRIBUTIONS</b>						
Total Balances						
20s	53.9	9.1	2.6	6.6	6.6	18.4
30s	54.5	8.8	2.2	4.7	6.8	20.4
40s	49.4	9.4	2.4	4.8	9.6	22.2
50s	43.5	10.1	3.0	5.5	13.1	22.8
60s	34.2	10.5	3.6	7.3	20.0	22.8
All	46.1	9.7	2.8	5.4	11.8	22.2

Note: Minor investment in other stable value funds and "other" are not shown; therefore, row percentages will not add to 100 percent. Employer-directed balances are invested in the plan sponsor's company stock.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project



Figure 10: CDF of expected returns: diversified equity vs individual stock

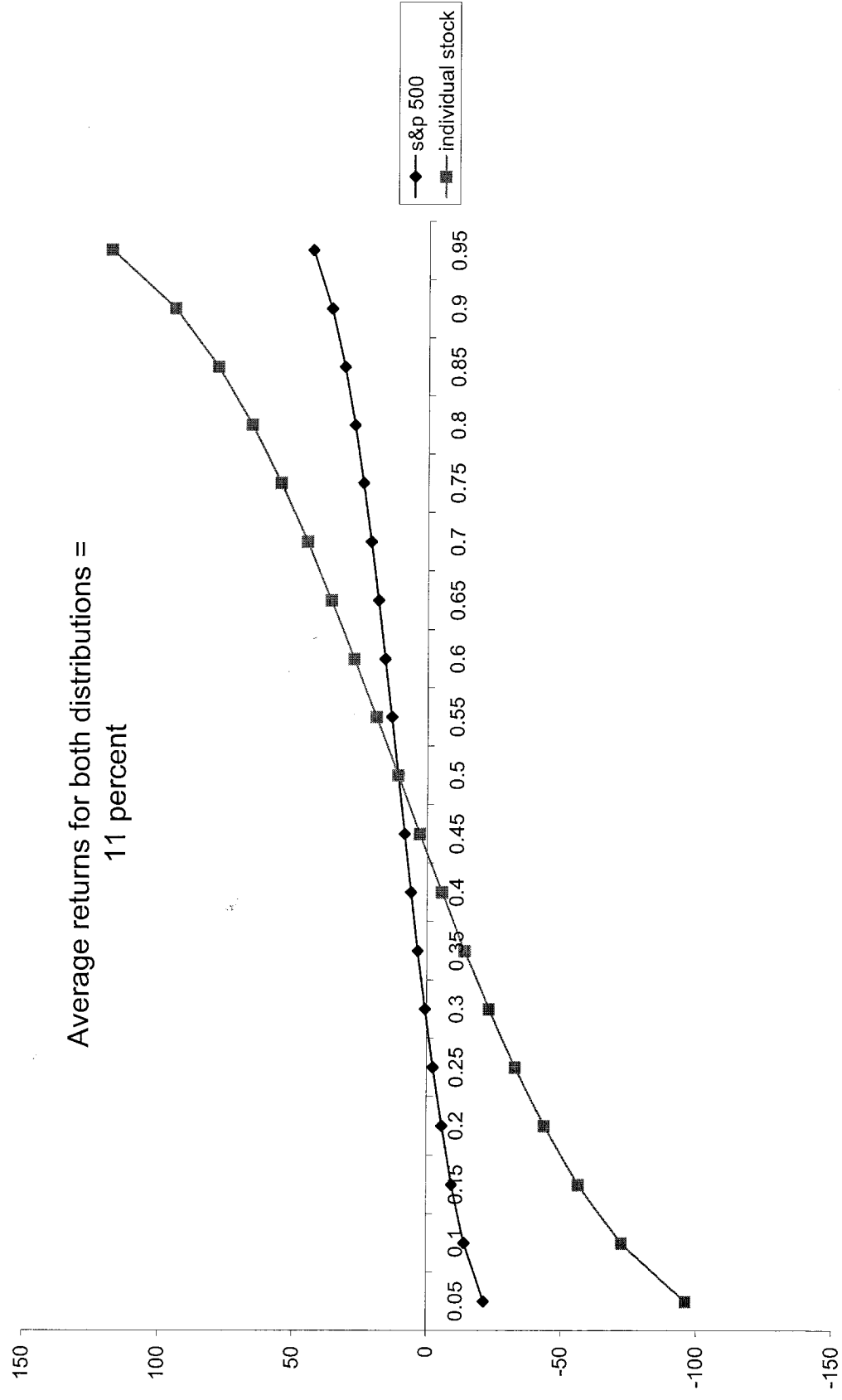


Figure 11: CDF of expected returns for 401(k) participants in their twenties: company stock vs no company stock

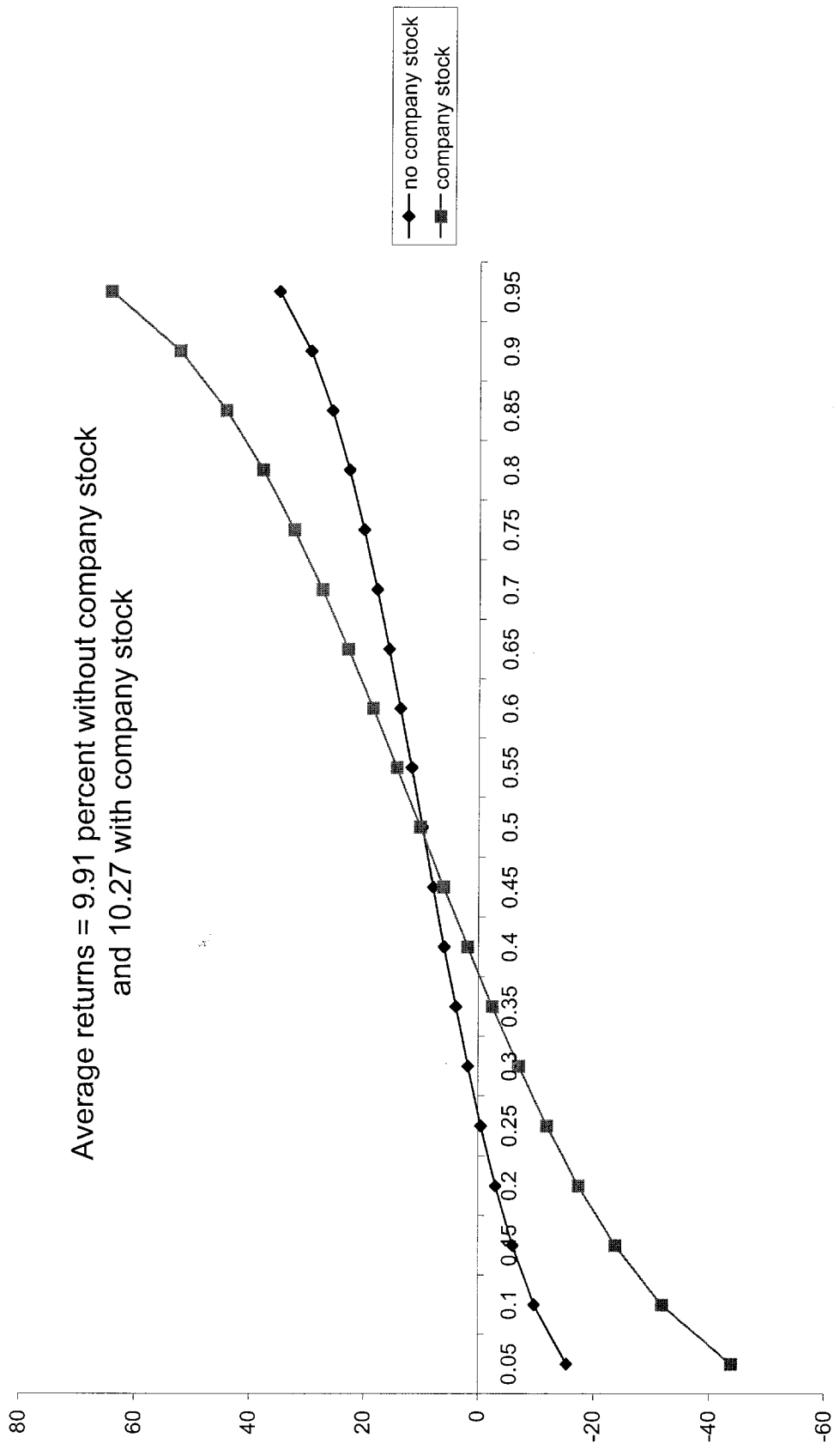


Figure 12: CDF of expected returns for 401(k) participants in their sixties: company stock vs no company stock

